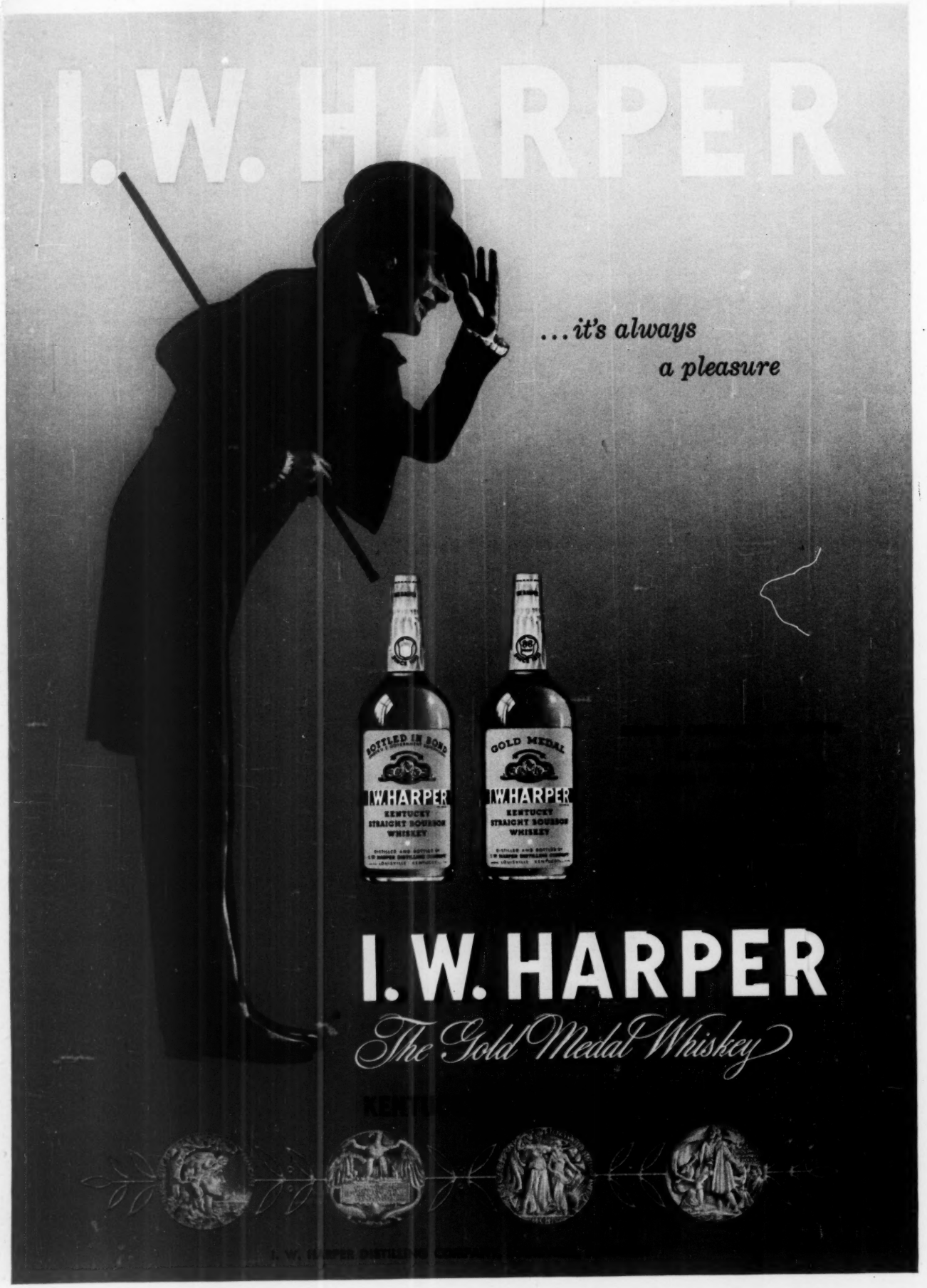
U.S. News & World Report

DECEMBER 30, 1955 20 CENTS

WHEN IKE MUST DECIDE

HOW TO AVOID MORE TAXES than you should pay

Interview with Randolph Paul, Leading Tax Adviser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The time to be careful

is when everything is wonderful

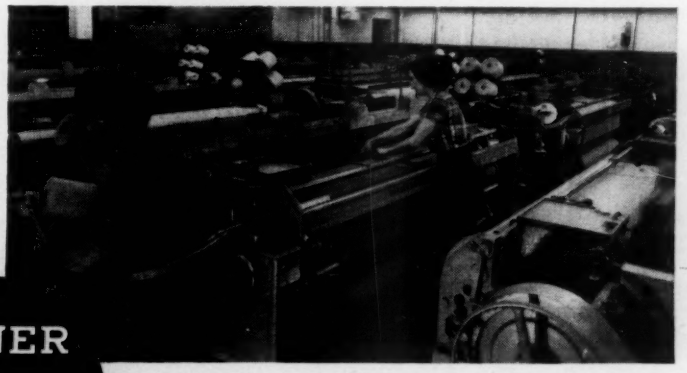
AND that's true, whether it's your business or your country.

Your business may be so prosperous you don't feel the need to cut out the fat; don't have to struggle for super efficiency; don't have to worry so much about competition.

That's the very time your competition can cut its costs, trim its waste, increase its skills. Then, at the slightest downturn, your competitor is equipped with the better precision product at lower costs, so he can sell at lower prices. Then it's too late for you to catch up.

It's exactly the same with your country; just substitute "enemy" for competitor.

Modern American tools, *well used by honest American workers,* could be the solution to both dangers. *Now*—when everything is wonderful. But management must buy those tools, and government—for its own protection—must pass tax laws which encourage it.



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★ Is U.S. Losing the Race for Atomic Power?

Here is the story of new competition from Europe in the race to develop power from the atom—page 26. A top authority says "security" impedes U.S. atom industry—page 104.

★ Behind Russia's Agreement to Expand the U.N.—

For the inside account of diplomatic bargaining that brought 16 new members into the U.N., see page 46. A Far East expert warns of what will happen if Red China gets in, page 92.

★ The President: His Health, Army Pay

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WORLD REPORT

U. S. WEEKLY
Three Titles Reg. U. S. Pat. Off

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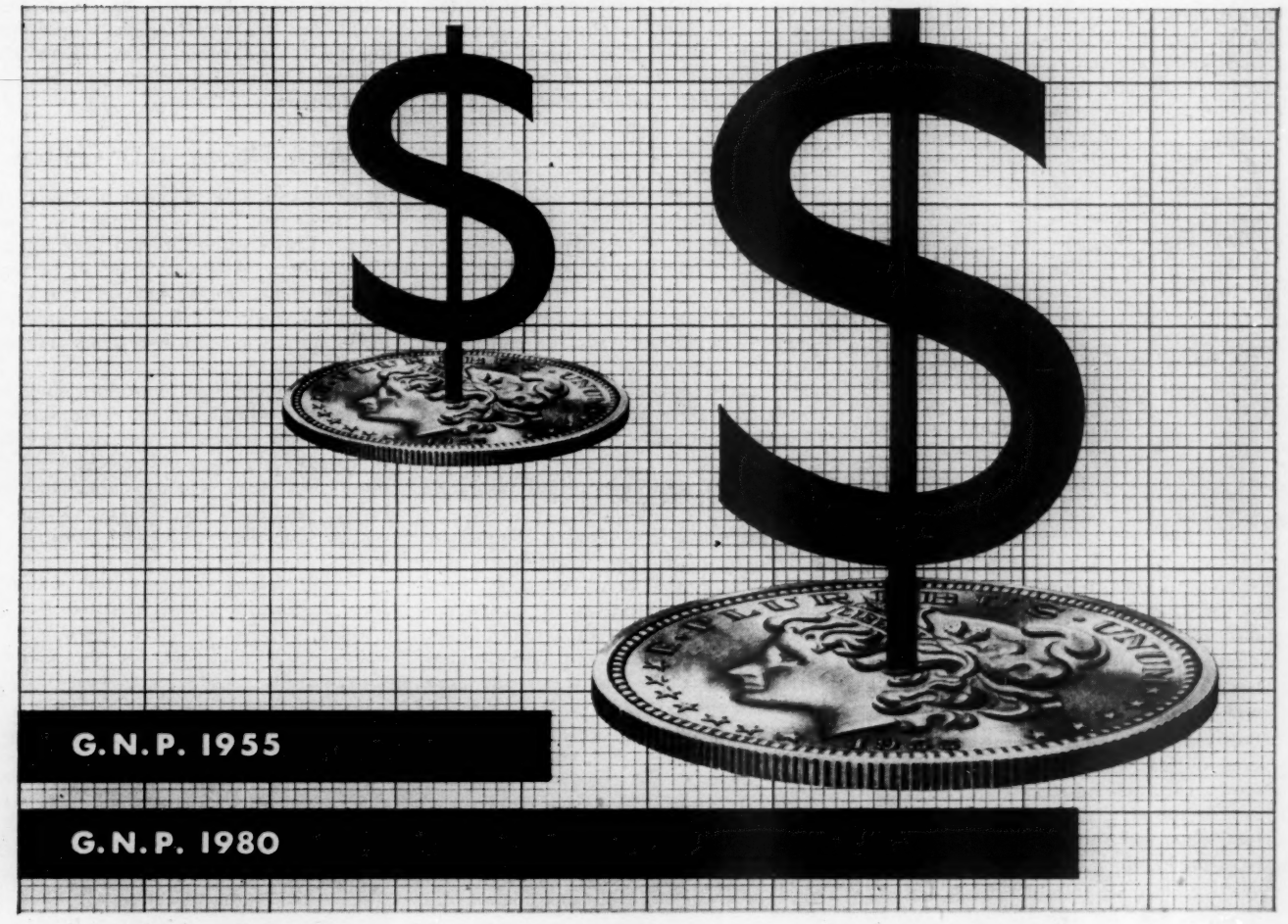
Will The Nation's Business Double... in the Next 25 Years?



Gross national product, the total value of the nation's output of goods and services, measured in a constant price level, should *double,* according to a careful estimate, in the next 25 years.*

This projection is based on the consumer needs of America's expanding population and implies the ability of American industry to increase productivity per-man-hour under the free enterprise system. Opportunities for expansion by both capital and consumer goods industries are apparent.

Availability of funds to take advantage of these opportunities as they arise is a prime consideration in the planning of growth-minded executives.

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*Based on our projection of *Materials Prepared For The Joint Committee On The Economic Report.*

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The Arab and the Camel

His load was heavy and the camel dreaded the long trip ahead. Then, as he struggled to his feet, his Arab driver asked him if he'd rather take the road that went up or the one that went down.

A difficult decision, true. Uphill was always a hard pull. Downhill, the pack would constantly chafe at his back. But the camel had an answer.

"Since you've given me a choice," said the camel, "why don't we take the road across the plain instead?"

Which all goes to show, as Aesop used to say, that the heavily burdened naturally lean toward a level path.

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The March of the News

POLIO ON THE RUN?

BETWEEN 1,200 AND 1,300 children were actually saved from polio this year by the Salk vaccine, Dr. Hart E. Van Riper estimated last week. Dr. Van Riper, medical director of the National Foundation for Infantile Paralysis, based his estimate on these statistics: Without vaccinations, nearly 1,700 cases of polio would have been expected among a group of 7 million children. But a sampling in 11 States indicates that only about 400 cases will show up among the 7 million children, throughout the country, who were vaccinated in 1955.

Basil O'Connor, president of the Foundation, also indicated that he considered the vaccine a success. Because of it, he said, the Foundation has cut its 1956 March of Dimes goal from 64 million to 47 million dollars.

U.N. LOTTERY

THE TIME WAS late evening. The place: the office of the President of the United Nations General Assembly. Present were representatives of Yugoslavia and the Philippines, with Assembly President José Maza, of Chile. Blindfolded, Mr. Maza reached into a box and drew out the name of Yugoslavia.

In this strange fashion, an important international issue was resolved. At its next meeting, the General Assembly elected Yugoslavia to a two-year term on the powerful U. N. Security Council. Under a "gentleman's agreement," Yugoslavia will "resign" after one year, and the General Assembly will elect the Philippines to serve in 1957.

FARM PINCH

FARMERS GOT official confirmation last week that the economic pinch they have been complaining about is getting tighter. Secretary of Agriculture Ezra T. Benson reported that the farmer's share of each dollar spent for food was just 39 cents in November—the lowest it's been since 1940. That share compares with a high of 53 cents for farmers in 1945.

OTTO JOHN'S ARREST

THE "IN-AGAIN, OUT-AGAIN" career of Dr. Otto John, former West German security chief, finally got him into serious trouble last week. Dr. John had "disappeared" from West Berlin and showed up in East Berlin back in 1954. Recently, he repeated the performance in reverse, fleeing back to the West.

The West German federal prosecutor, Dr. Carl Wiechmann, was unimpressed with John's story that he had been drugged and kidnaped by East zone agents last year. After days of questioning the double defector, Dr. Wiechmann ordered Dr. John arrested and charged with treason.

BACK FROM RED CHINA

AMERICANS GOT a grim reminder of what the "cold war" means in Communist China when Dr. and Mrs. Homer V. Bradshaw, American medical missionaries in China, crossed the border to Hong Kong last week. The Bradshaws had lived in Communist jails for four years and nine months.

Border guards and reporters, long accustomed to tragic sights, were shocked by the appearance of the couple. Mrs. Bradshaw, 57 years old, "looked 80" to border observers. She was emaciated and feeble, unable to speak coherently or to realize that she was in free territory at last.

Dr. Bradshaw also was frail, suffering from malnutrition and beriberi. But he was able to voice his convictions: "I have nothing but contempt for the Chinese Communists."

WORLD TROUBLE SPOTS

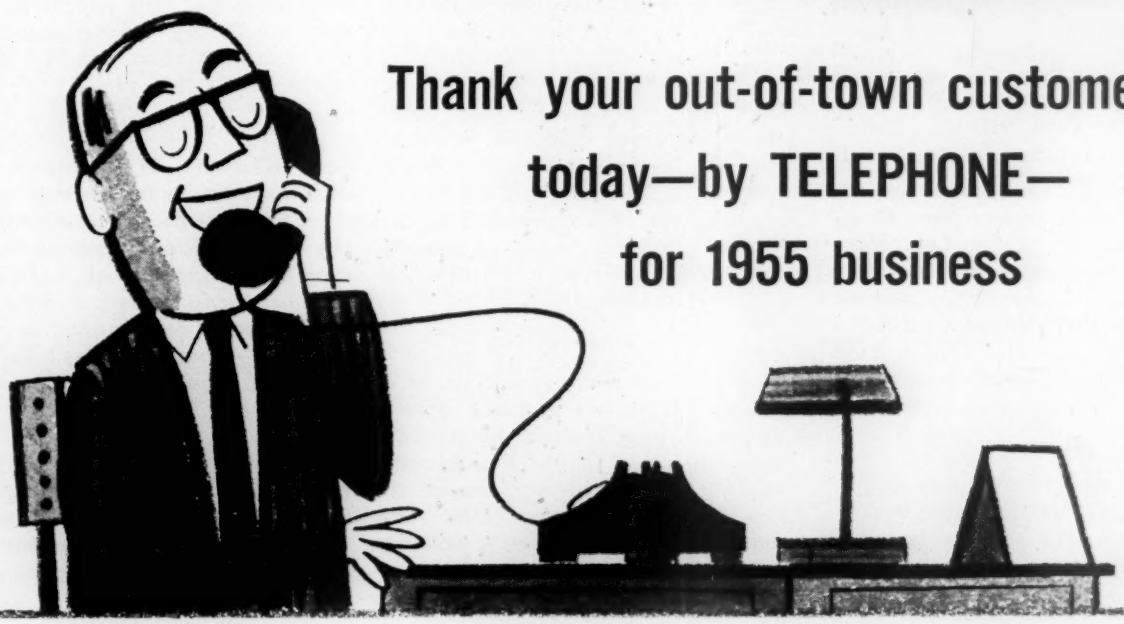
A WEEK OF VIOLENCE ended in uneasy quiet in Arab Jordan. Ten were dead and about 100 had been injured in half a dozen cities in demonstrations protesting proposals that Jordan join the anti-Communist Baghdad Pact for Middle Eastern defense. Several consulates in Jerusalem, including that of the U. S., were attacked without serious damage.

Guerrilla warfare in Algeria flared sharply last week, with 89 reported killed in one 24-hour period, as the Nationalists sent word through the native quarters of the big cities to step up terrorist acts over the Christmas season. . . . In French Morocco, terrorism continued on a smaller scale.

Correction

The December 23 issue of *U. S. News & World Report*, page 12, reported that a 3 per cent return on tax-exempt bonds, for a man whose top dollar of income is in the 50 per cent tax bracket, is equivalent to about a 56.6 per cent return from stocks. This was a typographical error. The correct figure is 5.6 per cent, not 56.6.

Here's a good start for better business in 1956



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[Items oppearing on this page are reported in Washington and other news centers]

Britain's "Lone Hand" Worries U.S. . . . Khrushchev Farm Plan Flops . . . Ohio's Delegation for Adlai?

Mr. Eisenhower, some of his friends say, is finding inaction very boring. They doubt that he will be willing to follow a life of leisure as a gentleman-farmer even if he should decide not to accept a second nomination.

★ ★ ★

The President has sounded out more than one close associate on the question of whether he could expect to win after a campaign limited to a few appearances on television, and whether people would feel the same about voting for a candidate who had suffered a heart attack.

★ ★ ★

A number of important officials are increasingly restive because of the lack of personal contact with President Eisenhower. It has been more than four months since the President has performed normal duties, and the complaint is that dealing with Sherman Adams, staff chief, is not proving to be the same as dealing with Mr. Eisenhower himself.

★ ★ ★

Frank Lausche, Ohio Governor, running for the Senate in Ohio, is expected by friends of Adlai Stevenson to deliver the big Ohio delegation for Stevenson for President in the 1956 Democratic Convention. Governor Lausche is likely to be Ohio's favorite-son candidate.

★ ★ ★

President Eisenhower is not yet sold on the plan of Thomas Dewey and the so-called "liberal" wing of the Republican Party to freeze out the so-called "Taft," or "conservative," wing of the party from a chance at the Republican nomination in case Mr. Eisenhower decides not to run. The idea of the "liberal" Republicans is to have the President delay any announcement until the last date for candidates to enter presidential-preference primaries.

★ ★ ★

Harry Byrd, Virginia Senator and Finance Committee chairman, wonders how the White House is going to be able to resist plans for spending more money to provide good things for people at home when it is making plans to spend more to help people in other countries. Plans now call for outlays of more than 4 billion dollars a year indefinitely on foreign aid.

★ ★ ★

Henry Cabot Lodge, Jr., U.S. delegate to the United Nations, is confident that he can avoid a showdown on admitting Red China to the U.N., at least until after the November, 1956, election. Ways are being greased for Communist China to get into the U.N. during 1957.

★ ★ ★

Offer by the Department of State of a $13,000 job to an aide of Styles Bridges, New Hampshire Senator, is being linked by some Republicans with State Department pressure to head off an investigation of the reasons why the Department is holding up publication of secret papers of wartime conferences.

★ ★ ★

Britain's tendency to play a lone hand in the Middle East is disturbing the State Department. Latest attempt, made against U.S. advice, was to pressure Jordan into joining the Baghdad Pact. That backfired, led to riots aimed at the U.S. consulate in Jerusalem.

★ ★ ★

Harry Truman, former President, does not agree with present officials of the Department of State that papers of the Potsdam Conference that he attended are "too hot for publication." Some of the papers of that Conference already have been published by Mr. Truman in his memoirs, which commanded a high price.

★ ★ ★

Ezra Benson, Secretary of Agriculture, is to be the object of a special program of the Republican National Committee, designed to overcome any farm-belt hostility to him and to his farm program. The aim is to overcome a feeling among many Republican politicians that Mr. Benson is a political liability.

★ ★ ★

John Kennedy, Massachusetts Senator, hopes to hold hearings in 1956 on a proposal that there should be a law that provides machinery for running the country when a President becomes incapacitated. Former Presidents Hoover and Truman, as well as Sherman Adams, who has been a sort of acting President, will be asked to testify.

★ ★ ★

Nikita Khrushchev, top man in the Soviet Union, staged a flop again in 1955 with his plan for solving Russia's food problem by opening new lands in the East. Output fell far under goals, and Russia was saved from a food crisis only by unusually large crops in the Ukraine.

★ ★ ★

A State Department official says this of agricultural attachés maintained abroad by the U.S. Department of Agriculture: "A lot of these attachés know farming well, but let's face it—that's all they know. They seem interested only in farming, they bore foreign dignitaries, forget the proper dress, and are giving the impression that the U.S. is crowded with country bumpkins."

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Then, as the industry expanded, even the most prosperous companies lacked enough hard cash for generating more power, stringing up miles of new wire, and delivering current to millions of new consumers. So they turned to the nation's banks for assistance.

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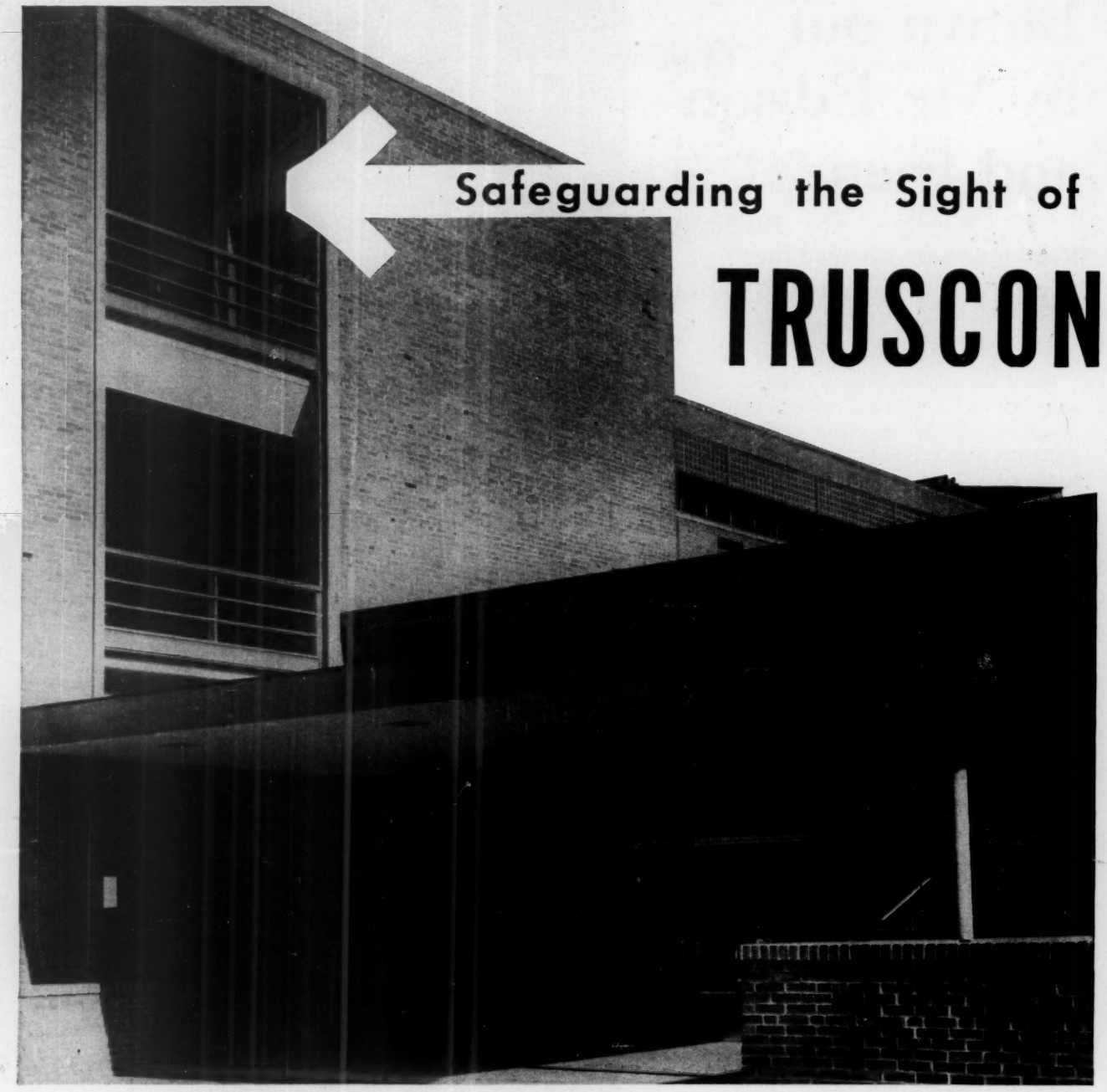

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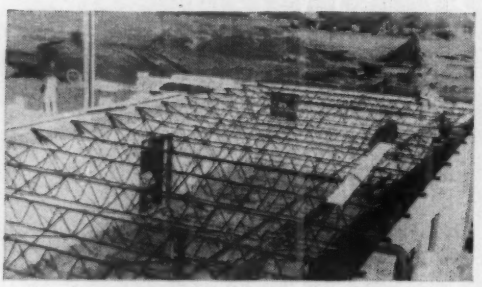

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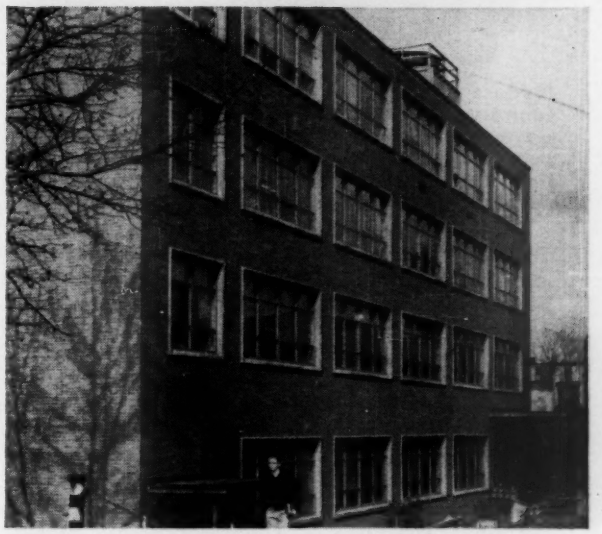

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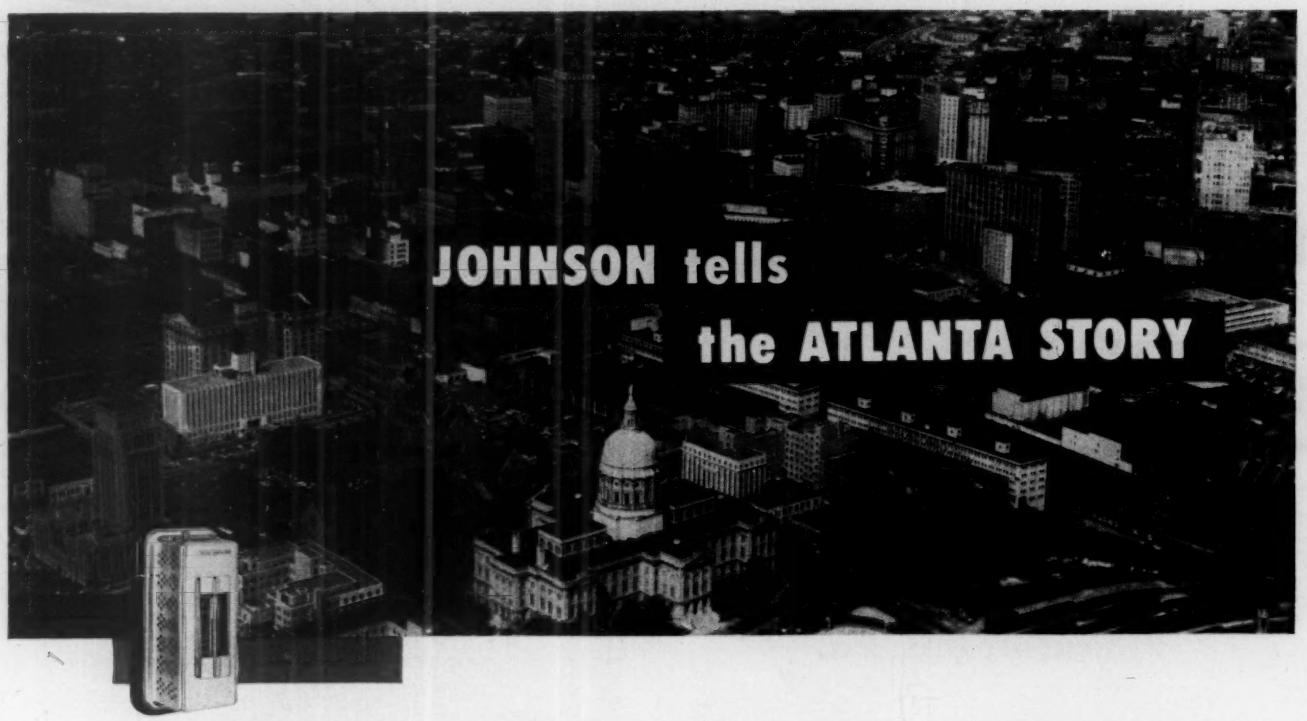

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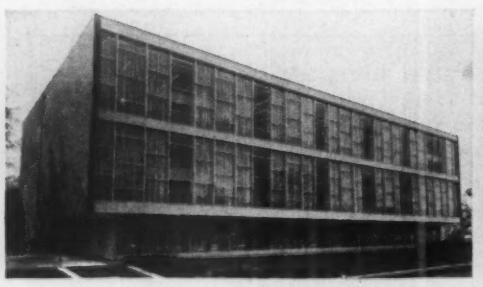

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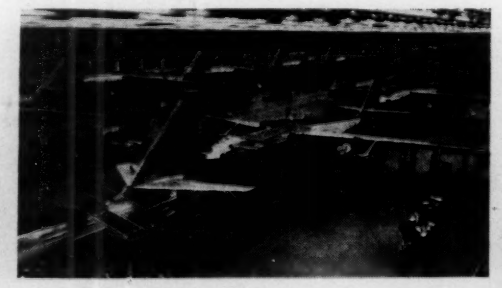

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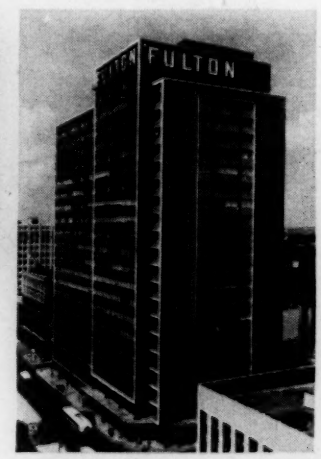

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A LOOK AHEAD

Newsgram®

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Never have times been so good at the end of any year. Pay is high. Jobs are abundant. Stores are filled with goods. Bank accounts are high.

The whole picture is one of quiet contentment.

Profits are the highest ever. Dividends are, too. Order books of most businessmen are well filled, assuring months of high-level activity.

Taxes remain high, it's true, but they're taken in stride.

Farmers, alone among big groups, are in trouble, experiencing falling prices and rising costs. Farmers get only 39 cents out of the food dollar.

War now seems remote. Fighting in the Middle East, in North Africa, seems far away to most Americans, not related to their daily lives.

Peace is being enjoyed, with thoughts turned far from war.

The draft is slipping slowly into the background. Draft calls of only 6,000 a month, out of a huge backlog, are barely noticed. Youths again are starting to plan their lives without having everything revolve around draft demands. The chance at this time is about 10 to 1 that draft calls will pass over those in the early years of draft age, with the possibility that demand for young men will continue to recede as time goes on.

Mood of the country seems very much tuned to Eisenhower. People appear content to know that Ike is getting better. They refuse to be concerned about whether or not he is working full time, or whether he spends long periods away from the White House. They're glad to have things calm.

Of one thing the President's personal friends say they are sure. It's this: Mr. Eisenhower definitely is not happy with his life of idleness.

Does that mean he plans to run again? Not necessarily, say these same friends. They point out that there is a big difference between wanting to be active and wanting to jump into a campaign for re-election, not to mention jumping into burdens that go with five more years in the Presidency.

Then what does it mean? At this point, simply that Ike is not going to be content to spend the remainder of his life on his farm. Where and how he will spend it, once he recovers fully, only time can tell. He may prefer to try to stay in the White House. Or he may choose an active life as a private citizen, with a home in Washington and an estate at Gettysburg.

What's likely to determine Ike's choice? Demands of a campaign are one

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thing. He apparently is not fully confident that he can win without going out and working hard. Last time, he was assured there would be little need to fight to win, and he ended up with a hard fight.

But would the voters expect the President to campaign? Mr. Eisenhower is told they would not. Warren Harding won primarily with a front-porch campaign before there was television or even well-developed radio. Would voters cast their ballots for a man who had suffered a heart attack? That question now is being asked by the President's friends. Polls appear to give the answer, in their indication that he would win in a walk over any opposition in sight.

Why, then, the lingering doubt? Two things account for it: (1) some remaining uncertainty that only the doctors can clear up; (2) a feeling that a second term might turn out to be rougher than the first. There is question whether an era of good feeling will last for many more years.

Has the President made any decision? Not that anyone knows of. When is he likely to make it? That all depends. If the decision is to step out, it might come on January 20. That third anniversary of the Eisenhower office-taking is three days before entries close for the first presidential primary. Mr. Eisenhower at that point could assure an open race for party nomination.

If not January 20? The next time to watch is between February 15 and March 1. That's the period when doctors will outline to the President just exactly where they feel he stands, opening the way to his decision.

What if the decision is to run? In that case there may be advantages in saying nothing, or in continuing to let the matter hang in the air. The longer an announcement is delayed, the more probable the decision to run. A long delay would increase pressure for a draft, reduce the chance for others to make a real dent in primaries or to build Convention support.

Does the White House group have a plan? Yes, it does. The plan first of all is to encourage the President to run. Then, in case his decision is a firm "no," the plan is to freeze out the so-called "conservative" wing of the party--to assure nomination of someone approved by the "liberals."

Pressure of the White House group is to delay the decision.

Where do the Democrats stand at this point? Lausche, of Ohio, is out, choosing instead to run for the Senate. Kefauver is ready to make his try in the presidential-preference primaries. He still has an uphill fight. Harriman is hoping that Stevenson and Kefauver will kill off one another.

Stevenson, actually, is far out front and gaining at this early point. Probabilities are strong, as of now, that Stevenson again will be the nominee.

Arms spending is to rise again in a time of apparent peace. Peace, it is clear, is fragile, easily broken in a world where shooting comes easy.

A breakthrough in development of guided missiles of medium range has come at the end of this peaceful year. Missiles of long range, that can cover 5,000 miles in not many minutes, are not far around the corner now.

The prosperity and the peace of today tend to have an unreal feeling. Prosperity may be too much based on borrowed money; peace had at a price that may not always be paid. Both are to be enjoyed greatly while they last.

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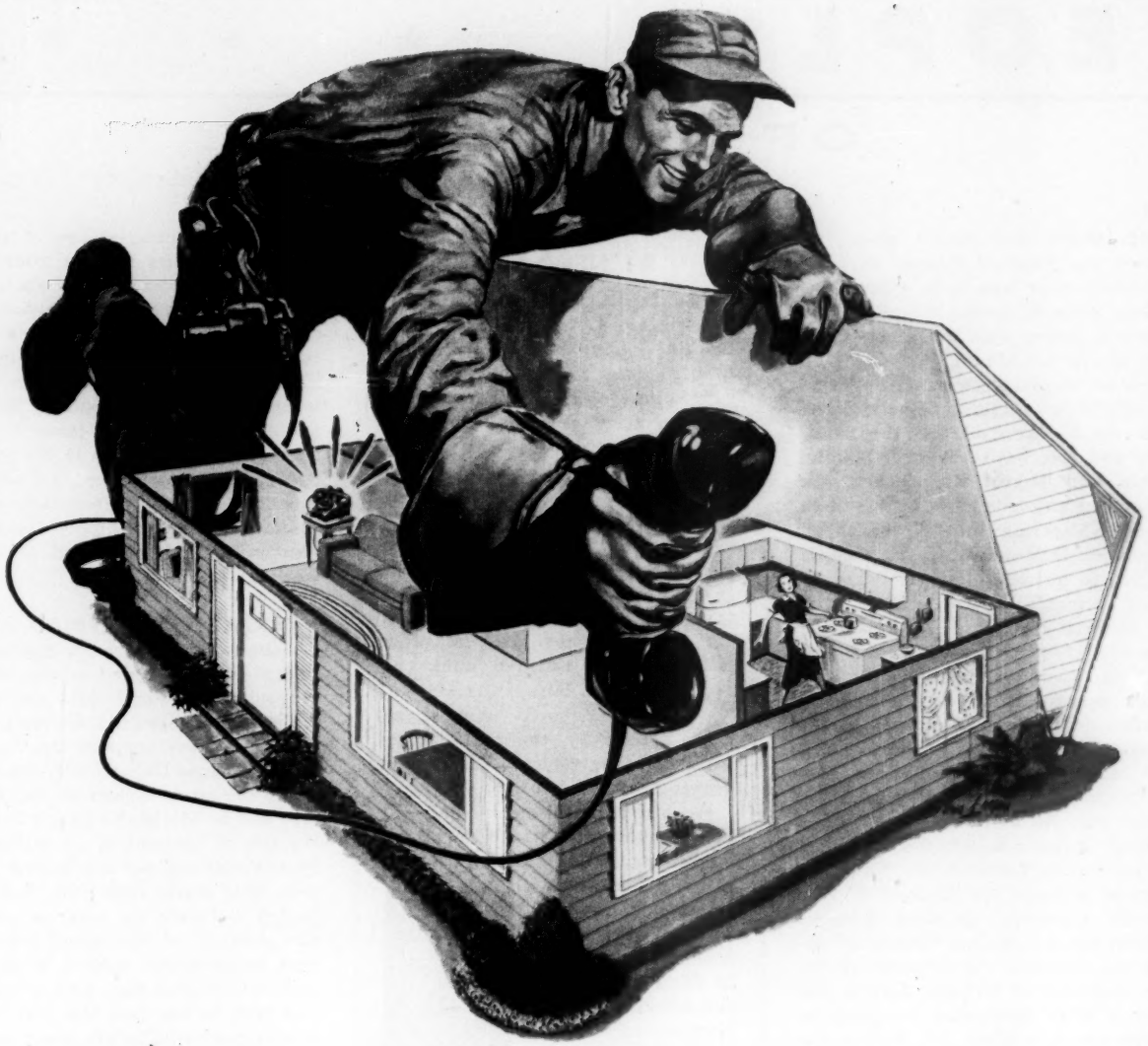

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PEOPLE ★ ★ ★

OF THE WEEK

THIRD MAN who tagged along behind two top Russian leaders on their Far Eastern tour has been exposed as **Col. Gen. Ivan A. Serov,** director of all Red secret police and the most-feared man in the Soviet Union.

Listed as "chief administrative officer" of the official Soviet party, General Serov kept in the background, left the handshaking and speeches to Premier Nikolai Bulganin and Nikita Khrushchev, the Communist Party chief. But he was often observed whispering into Khrushchev's ear, shushing Bulganin when the Premier attempted to answer questions posed by Western newsmen. It was obvious that Serov had the last word on security.

The trip through India, Burma and Afghanistan gave the Kremlin's security chief an opportunity to establish personal contact with Red undercover agents in those countries. He was overheard telling an Indian intelligence officer in Madras: "Your arrangements were bad. . . . See that you do better in Calcutta."

General Serov reached the top after the execution of Lavrenti P. Beria. He had made a name for himself in Red circles by rounding up slave laborers who built the Volga-Don Canal; by directing the merciless "sovietizing" of the former republics of Estonia, Latvia and Lithuania after they were occupied by the Red Army in 1940. He was in the U. S. from 1942 to 1944 in the guise of "expediting Lend-Lease arrangements."

Refugees who have suffered under the thin-lipped General call him a combination of Heinrich Himmler—Hitler's Gestapo chief—and Tsar Ivan the Terrible.

AMBITIOUS LEADER of the newest country to cuddle up to the Communists, **Premier Mohammed Daud** is gambling that Afghanistan can accept a 100-million-dollar loan from Moscow and keep its independence. The odds are that he is dead wrong.

The Afghan kingdom, a badly underdeveloped country about the size of Texas, lies between two U. S. allies—Pakistan and Iran. Its northern neighbor is Soviet Russia. Afghans are Moslems; many of them are nomadic.

Premier Daud, 46, was educated in Paris, later served as the Afghan Ambassador to France. He has a military background, was Defense Minister before being named to head the Government. He is a first cousin of King Mohammed Zahir Shah, is married to one of the King's sisters. The Premier's brother, Mohammed Naim, is Foreign Minister and also a brother-in-law of the King. The two families run the country.

Previous Soviet loans of about 14 million dollars have given Afghanistan new roads, oil-storage facilities, a fleet of buses and taxicabs for Kabul, its capital. This aid also brought a swarm of Soviet technicians into the country. Red agents are expected to flock there if the new loan is completed. The U. S., since 1951, has spent or earmarked 7.5 million for economic aid to Afghanistan—plus 39.5 million in Export-Import Bank loans—mostly for irrigation and flood-control work.

IN NEW JOBS

TOP OFFICIALS are involved in the biggest Cabinet shake-up in Britain since the Conservatives rose to power in 1951.

Selwyn Lloyd, 51, becomes Foreign Secretary. A topnotch lawyer, he is neither anti-American nor pro-American. He rose from lieutenant to brigadier in World War II, has what soldiers call a "staff mind." As a U. N. delegate, he often tangled with the Russians. Once, bored by a repetitious speech by the late Andrei Vishinsky, he sighed: "Dig that broken record."

MR. LLOYD

Harold Macmillan moves into the Treasury as Chancellor of the Exchequer. Prime Minister Sir Anthony Eden was known to be unhappy with Mr. Macmillan's work in the Foreign Office. Lacking a solid background in finance, the Chancellor, 61, probably will lean heavily on the career civil servants who really run the Treasury. He has never been a popular figure. If Britain's prosperity dips, he will be on a hot spot.

MR. MACMILLAN

Richard A. Butler steps out of the Treasury to become the No. 2 man in the Government as Leader of the House of Commons. He is 53, now has a chance to build himself up politically both within the party and with the voters. Mr. Butler, once shy, has gained confidence in office. He can be expected to take a lot of the weight of domestic matters off the shoulders of Sir Anthony leave the Prime Minister more time for foreign affairs.

MR. BUTLER

TAXPAYERS' GUARDIAN in the final decisions on how next year's defense budget will be shared among the Army, Navy and Air Force—how many billions for each—is **Wilfred J. McNeil.** He is an Assistant Secretary and the Comptroller of the Defense Department—the man who holds the purse strings at the Pentagon.

It will be Mr. McNeil's job to supervise the use of upward of 35 billion dollars by the military services during the fiscal year that starts next July 1. He is expected to tackle the task, as usual, with the caution of the small-town banker that he once was. Adding to his reputation as a careful man with a dollar is the fact that he has held the post ever since it was established eight years ago during the tenure of President Truman.

The Pentagon's fiscal chief often must turn down requests for funds from service "brass" for special projects in the face of claims that denial will weaken U. S. defenses. He is credited with having introduced many innovations in economizing on Defense Department spending that have produced savings for the taxpayers.

Mr. McNeil, an Iowan, has been banker, automobile dealer, newspaper circulation manager; holds the rank of rear admiral in the U. S. Naval Reserve. He is 54, draws $15,000 a year as the Pentagon's "No" man.

GOVERNOR GOODWIN J. KNIGHT of California said a few months ago that he did not believe he could win the Republican presidential nomination because "I don't think enough people would know me." Since then, he has been acting more and more like a candidate anxious to overcome that handicap.

California will have 70 delegates at next year's Republican Convention—second only to New York's 96. Governor

(Continued on page 16)

He's all for BIG government

THE Radical Left-Winger. The deeper our federal government invades private industries *(like Chemicals, Metals, Utilities, Mining)* and businesses and professions *(like Tire Retreading, Cafeterias, Surgical Instruments, Medicine, Dentistry)* . . . the happier is this dangerous character. He's all for government-in-business because he knows it is as much a threat to America's security as *he* is!

He hates the Hoover Report because it strongly recommends getting government *out* of business and industry where it doesn't belong. Unscrupulous lobbyists and selfish-interest blocs are also fighting the Hoover Report. A *nice* set of bedfellows!

But on the other side of the fence are those who place America's welfare, safety and high living standards above all personal benefits. *They* see government-in-business as a real danger to the free-enterprise system on which American prosperity has been built . . . *the prosperity we all enjoy today!*

FREE! ***Write us for a copy of the Hoover Report booklet on Government in Business.***

BASIC REFRACTORIES INCORPORATED CLEVELAND 15 OHIO

CONTINUED

Knight is working hard to line up a slate of delegates pledged to himself as a favorite-son candidate but ready to shift to President Eisenhower if the President seeks a second term. It could be that Mr. Knight is jockeying for second place on the ticket with Ike.

The Governor's plans make no provision for support of Vice President Richard M. Nixon or California's Senator William F. Knowland—both potential aspirants if Mr. Eisenhower should not run. Known to be cool toward Mr. Nixon, the Governor once said: "If the President asks me . . . I'll tell him he may like the boy, but we just can't elect him."

Mr. Knight served seven years as California's Lieutenant Governor, campaigned in every corner of the State. He moved up to the Governor's chair in 1953 when Governor Earl Warren was named Chief Justice of the U. S. Mr. Knight was elected to a full term in 1954, by a margin of 550,000 votes. He is 59, a lawyer and former judge; got his start in politics by passing out campaign handbills at the age of 14.

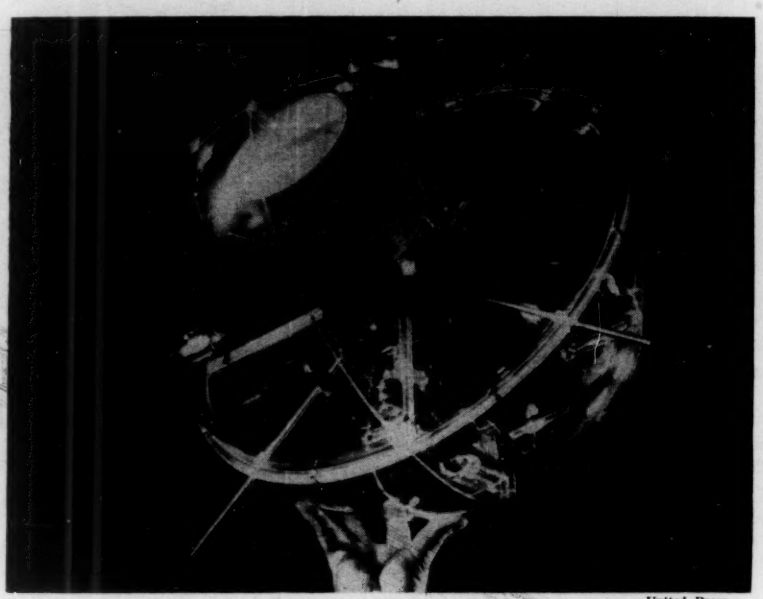
› **MARION B. FOLSOM** unwrapped last week a package that could be a Christmas present to future generations. The Secretary of Health, Education and Welfare revealed plans to expand the Government's war on disease next year by stepping up its medical-research program. Congress will be asked to provide about 125 million dollars for that purpose alone —a 25 per cent boost.

Some of the money would be used by the U. S. Public Health Service, which Mr. Folsom administers. Much more would go in research grants to private hospitals and institutions. Also in the HEW package is legislation to remove what the Secretary called the "chief bottleneck" to research in medicine. He urged increased federal aid to combine medical-school construction with the training of personnel—doctors, nurses, technicians—needed to man the new facilities.

Mr. Folsom, 62, is a pioneer in social-welfare work and a former treasurer of the Eastman Kodak Company. For 21 years he commuted between his home in Rochester, N.Y., and various Government posts in Washington. He was appointed to the Cabinet post by President Eisenhower last July, says he has found great happiness in his work there.

The Secretary believes his Department is making good progress "with sound projects and competent people to do them." He has in the blueprint stage now a new program for federal aid to education, which the President will outline in a special message to Congress.

WORKING ON ROCKET TO LAUNCH A SATELLITE



—United Press

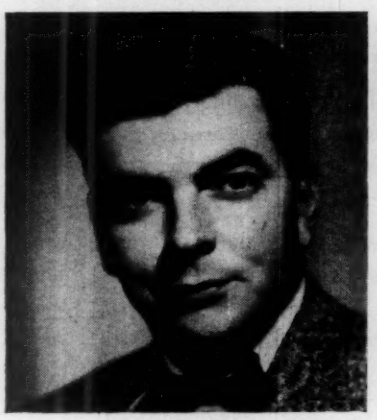
MODEL SHOWS WHAT EARTH SATELLITE MIGHT LOOK LIKE

› **YOUNG SCIENTIST** chosen to build the rocket that will launch a man-made earth satellite into space for the first time in history is 31-year-old **N. Elliott Felt, Jr.**

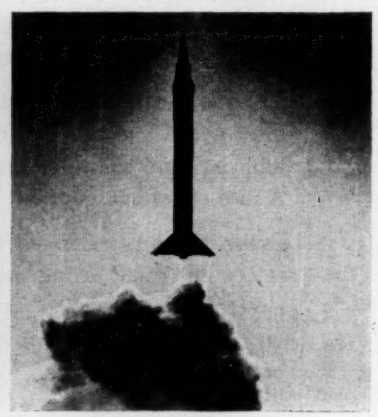
Mr. Felt has been on the engineering staff of the Martin Company, Baltimore aircraft firm, since 1951. He is a graduate of the University of Maryland and the Graduate School of Engineering at Georgia Tech. He headed the team of space scientists that designed the control system for Martin's Viking rocket, which holds the world's altitude record of 158 miles for single-stage rockets.

The earth satellite—about the size of a basketball—will be launched sometime between July, 1957, and December, 1958. Filled with scientific instruments, it will be carried aloft in the rocket to a height of 300 miles and there set free to circle the earth for a time at 18,000 miles an hour.

Models of an artificial satellite are now on display at the Hayden Planetarium, in New York, and the Science Museum, in Chicago.

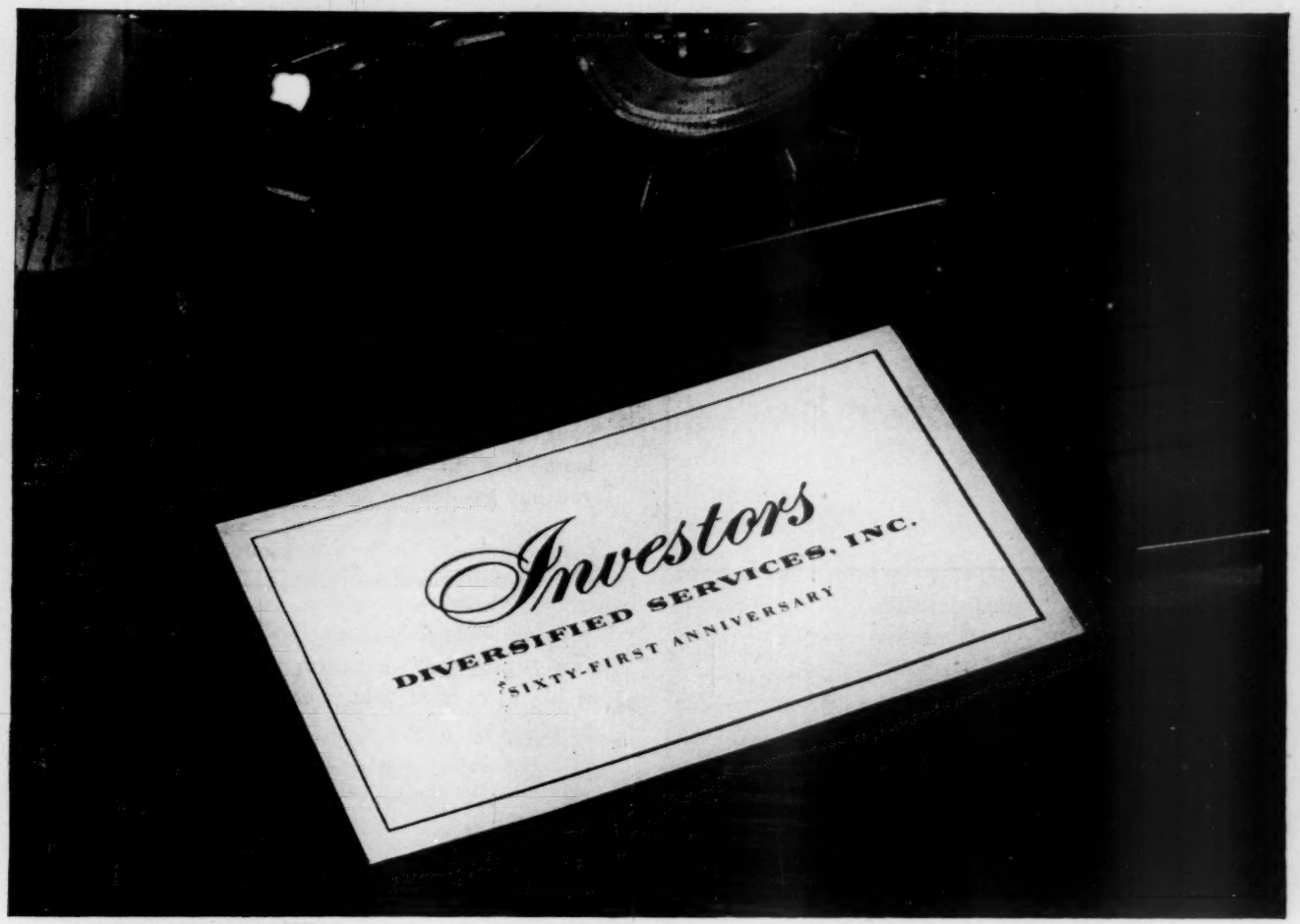


N. ELLIOTT FELT, JR.



THE VIKING ROCKET

For a young rocket builder, a history-making task



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VOLUME XXXIX—No. 27 U.S. News & World Report WASHINGTON, D. C.

WHEN IKE MUST DECIDE

It'll Be Fairly Soon, or Primaries Will Begin to Close In

If Ike is not going to run again, the date when he announces his intentions is turning out to be of great political importance.

By speaking out before January 23, Mr. Eisenhower could throw the Republican race wide open. All candidates would have time to file in all State primaries. After that, deadlines come fast. Delay in announcement would block some candidates out of primaries that they consider vital to their campaigns.

By delaying, therefore, Ike could better guide the choice of his successor. But the longer he waits, the more likely it will appear that he intends to run again.

Time is crowding President Eisenhower toward an early statement of his plans for 1956. The primaries are close at hand, confronting him with some practical political decisions.

• If the President decides to step aside and permit the free choice of a successor within the Republican Party, he will need to make his decision known by January 23. This is the last day for candidates to enter the presidential-preference primary in Illinois. By February 5, it also will be too late to file in New Hampshire, West Virginia and Alaska. By mid-February, filing dates will have passed in Ohio and Minnesota.

• If Mr. Eisenhower is determined to retire, but wishes to guide the nomination of his successor, he can hold back until April 8, or even later, before making an announcement. By that time, the primaries in California, Maryland and 13 others of the 18 States with mandatory presidential-primary laws will be closed to any who may hold back waiting for Mr. Eisenhower to announce. The District of Columbia primary will be closed as well as that of Alaska. Only Montana, New York and South Dakota will be left.

• If the President is concerned by the fact that some Republicans who might make strong races for the Senate and House are waiting for his decision before making their own, then an announcement will need to come early. In five States, candidates for congressional primaries must file before the end of February. Eight others require such candidates to file before the end of March. Some think the President might make known his decision on January 20, anniversary of his inauguration. This would be in advance of all closing dates for the primaries.

—Shoemaker in the Chicago News

THE KEY LOG
. . . pressures are building up

• If interested in being drafted for a second term, President Eisenhower can simply say nothing and let nature and the Republican Party take their course.

A chance for others. The time for a presidential decision is running out, as is shown by the chart on page 21. Within less than 30 days, the filing dates will expire for important presidential primaries. Several Republicans who reflect views that recall those of the late Senator Robert A. Taft, of Ohio, will be blocked out of the running if the President does not announce his personal plans before the time passes for filing in these primaries.

Among many Republicans, the view is expressed that the President would not wish to override the primaries and prevent the voters of important States from expressing their views about issues and candidates. The chief purpose of the primaries is to give voters a chance to express their opinion about candidates. The conventions do not always follow the lead of the primaries, but the primaries do give candidates springboards for nomination.

In the President's own circle of friends, however, he is being advised to say nothing and choose his own man if he decides not to take another nomination.

Restive aspirants. A number of Republicans are showing signs of

restiveness. Senator John W. Bricker, of Ohio, has announced that he will try to control the big Ohio delegation by running there as a favorite-son candidate. Senator William F. Knowland, of California, Minority Leader, is eying the primaries in his home State and elsewhere, creating a situation that might place Vice President Richard M. Nixon, also from California, in an uncomfortable position.

The names of prospective candidates are beginning to pile up. Senator Joseph R. McCarthy, of Wisconsin, is understood to be considering entrance in the primaries of his home State, and perhaps elsewhere. As a roadblock, Wisconsin Republicans are forming a slate of National Convention delegates led by Governor Walter J. Kohler and pledged to President Eisenhower.

In Massachusetts, clubs are being formed for Governor Christian A. Herter with the purpose of dropping his name into the Convention if Mr. Eisenhower does not run. The Governor's name may go into the Massachusetts primary as that of a favorite-son candidate.

Similar maneuvers, using one name or another, are being made by Eisenhower men in other States. In a quiet way, much of this work is being done by former aides of the White House under the direction of friends of the President who want to make certain that there are plenty of men amenable to White House persuasion on the delegations that are chosen early.

Watchful President. Mr. Eisenhower is not unaware of these and other developing situations. He finds that he must take them into account in fixing his own course.

Beyond mid-February, each day of delay by the President in announcing his plans will tend to freeze out party hopefuls and add to the feeling that he is prepared to accept a second-term draft. This is to be felt most keenly by a candidate such as Senator Knowland who might make a strong bid for the support of the former Taft followers.

Of the four States in which primary filing time closes during the first eight days of February, only New Hampshire sent an Eisenhower delegation to the 1952 Convention. In New Hampshire, Sherman Adams, now Assistant to the President, then Governor of the State, led a fight against Senator Taft and helped to capture the delegation for Mr. Eisenhower. Mr. Adams now is calling the turns for 1956.

In Illinois, Ohio and West Virginia, where filing must be done before the end of the first week in February, there still are strong pro-Taft elements. The present move by Senator Bricker is aimed at keeping this group in control of the Ohio delegation at the 1956 Convention. Plans have not yet become clear in Illinois and West Virginia, however. Senator Everett M. Dirksen will be too busy trying to win re-election in Illinois to lead such a maneuver.

After April 6, the last day for candidates to file in the California primary, it probably would be difficult for Mr. Eisenhower to turn back from a draft move without causing deep rifts within the party. Even if the Eisenhower men in the party should turn the nomination to a man favored by the President, Republicans from the old Taft wing of the party would feel that they had been maneuvered out of a chance to fight for the nomination.

No beaten path. Actually, there is no pattern in the history of presidential primaries to guide President Eisenhower.

In 1948, President Harry Truman announced on February 19 that he would run for another term. But, in 1952, he waited until March 29 to say that he did not intend to run again. By that time, a slate of Truman delegates, running without his approval, had been beaten in the New Hampshire primary by Senator Estes Kefauver, of Tennessee.

Franklin D. Roosevelt always arranged, quietly, to control Democratic Conventions after his first nomination in 1932. James A. Farley, political general for Mr. Roosevelt, tells of setting up plans for a unanimous renomination of Mr. Roosevelt in 1936. The Convention renominated him by acclamation. In 1940, Mr. Roosevelt gave a green light to Mr. Farley and Vice President John Nance Garner for them to enter the primaries, then accepted a draft for a third term.

In 1944, it was taken for granted that Mr. Roosevelt would be a candidate for a fourth term.

Usually, each party has gone on the assumption that a President will accept a renomination at the end of his first term, and the party machinery is set up to grind out one for him unless he makes it clear that he does not intend to run. Neither Woodrow Wilson, in 1916, nor Herbert Hoover, in 1932, made formal announcement of an intention to run again.

Coolidge's experience. Less than three months after Calvin Coolidge went into the White House at the death of Warren G. Harding in 1923, a friend of Mr. Coolidge, emerging from a long talk with the President, announced that New England would back Mr. Coolidge for nomination in 1924. And it was almost a year in advance of the 1928 Convention that Mr. Coolidge made his "I do not choose to run" statement.

Theodore Roosevelt, on the night of his election in 1904, announced that he would not be a candidate again. In January, 1908, Mr. Roosevelt announced that he would support William Howard Taft as his successor.

Four years later, Mr. Roosevelt told a friend he would cut off his right hand if he could recall the statement that he would never run again. Then Mr. Roosevelt plunged into a campaign to wrest the 1912 nomination from Mr. Taft. He captured most of the primaries, but Mr. Taft was nominated by the Republicans.

Thus, Mr. Eisenhower finds nothing in recent history to guide him in timing his decision. His own position is unique because of the uncertainty about his health. If he had had no heart attack, it would be taken for granted that he would accept a second nomination.

Decision up to Ike. The doctors have told Mr. Eisenhower that they can give him their verdict before the end of February. But what they will give him is to be a health report and an appraisal of the pressures he can endure. They are not expected to give him any advice about running for the Presidency.

With the facts in hand, the President must make his own decision. He can keep quiet and let the Convention move on to a draft. He might pick a single candidate. He might simply indicate the kind of candidate that would be acceptable to him. Or he could flatly announce his own withdrawal and let the party do its own choosing in the primaries and at the Convention.

But time is beginning to crowd in upon Mr. Eisenhower. The primaries are close at hand.

Ike's Plans—Effects on the Primaries

If Ike Waits Until Mid-February—

to announce his plans, Republican "hopefuls" will hesitate to enter primaries in 5 States and Alaska, where 178 delegate votes in the 1956 Republican National Convention will be at stake.

If Ike Waits Until Mid-March—

Republican candidates may back away from primaries in 6 additional States, with 220 delegate votes, bringing the total of by-passed primaries to 12, representing 398 delegate votes.

If Ike Waits Until Mid-April—

Republican "hopefuls" may decline to enter 5 more primaries, in areas where 150 delegate votes will be at stake. Bypassed primaries will number 17, representing 548 delegate votes.

If Ike Waits Until Mid-May—

most Republican contenders may duck the final primaries, in 3 States with 124 delegate votes. Missed, in that event: 20 primaries in 18 States, Alaska and District of Columbia, representing —

State	Last Day For Filing	Date of Primary	Convention Votes of State
Illinois	January 23	April 10	60
Alaska	February 1	April 24	4
New Hampshire	February 2	March 13	14
West Virginia	February 4	May 8	16
Ohio	February 8	May 8	56
Minnesota	February 15	March 20	28
Pennsylvania	February 20	April 24	70
Wisconsin	March 2	April 3	30
Florida	March 6	May 29	26
Massachusetts	March 6	April 24	38
New Jersey	March 8	April 17	38
Oregon	March 9	May 18	18
Indiana	March 29	May 8	32
District of Columbia	April 1	May 1	6
Nebraska	April 5	May 15	18
California	April 6	June 5	70
Maryland	April 7	May 7	24
Montana	April 26	June 5	14
New York	May 1	June 5	96
South Dakota	May 6	June 5	14

672 delegate votes, or 10 more than the total needed to win the presidential nomination in the August, 1956, Republican Convention.

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WHAT THE DOCTORS SAY ABOUT THE PRESIDENT'S HEALTH

For President Eisenhower and the Republican Party, much depends on the views of two doctors: Maj. Gen. Howard McC. Snyder and Dr. Paul Dudley White.

They advise the President on how hard he should work, how much he should exercise—and his prospects for the future.

What they say will have great influence in deciding whether Ike runs for a second term.

What do these doctors say? And do their views always coincide? Or is there some disagreement between them?

Following, in the doctors' own words, are the answers to these questions.

On the threshold of 1956, the year when the President must decide whether he will run again, people are seeking clues to Ike's future. Interest centers on the kind of exercise the President takes, on places he picks for a health refuge as well as on his work load and his chances of recovery. Here is how Dr. White, the heart specialist, and Dr. Snyder, the family physician, have expressed themselves.

Stepping Up the Work Load—

Dr. White's early comments were cautious. Now this caution has given way to overt optimism. Dr. White advises his patient to head boldly into work. Dr. Snyder thinks Ike should go slow. On October 22, less than a month after Ike's heart attack, this comment was made at Denver:

Dr. White: We don't want to rush the convalescent period. He himself doesn't want to. . . .

This was followed up on November 7 by other statements:

Dr. Snyder: . . . He is not going to be exposed to full duties until at least in January. . . .

Dr. White: . . . We are increasing steadily the amount of work, physical and nervous, both. And that we will continue to do. . . .

But questioning at a White House press conference on December 10 developed the fact that Dr. Snyder was concerned that the President was working too hard. An examination had just been made at Walter Reed Hospital.

Dr. Snyder: The executive responsibilities have imposed a heavier tax upon the President than an ideal convalescent program would incorporate. . . .

• • •

Q: Did that recommendation to lighten the work, Doctor, have anything to do with the examinations today?

Dr. Snyder: No. No. We have—Mr. Hagerty [the President's Press Secretary] and I, and others—have been using every influence to maintain as light a load as the executive demands require.

Q: Well, doctor, if the present comparatively light program is too heavy . . . what is your opinion of the increase of a heavier load when he comes back and Congress is here?

Dr. Snyder: It is my opinion that his decisions in the early days of Congress will not be as demanding as those that he has experienced in the recent past.

Q: Could you enlarge on that?

Mr. Hagerty: I can. You are in the middle of the budget. We have had two Cabinet meetings and two NSC [National Security Council] meetings up at Camp David within a week. Those are what we are talking about.

• • •

Q: Have you recommended to the President that he slow down his pace?

Dr. Snyder: Oh, yes.

Q: Today?

Dr. Snyder: Not today. For some time past. In other words, I have been discouraging him from overdoing. . . .

At Gettysburg a week later, different conclusions were reached from essentially the same data that Dr. Snyder used—the results of the Walter Reed examination.

Dr. White: What is our advice? First, steadily increasing activity, both physical and mental, up to his full job. . . .

Q: Doctor, will you recommend an increased work load now for the President?

Dr. White: Steady, yes. Steady increase. . . .

Chances of a Recurrence—

Over a period of less than two months, Dr. White renewed hopes of those who want the President to run again. On October 22 this is the way the questioning ran:

Q: What, sir, is your evaluation—your percentage of recurrence of a coronary in a man aged 65?

Dr. White: Well, it's impossible to make any estimate. . . . There are general estimates. A good many patients will have second attacks, sometimes many years apart. A good many don't. And I haven't my own latest figures. . . .

On December 17 Dr. White was more definite—and more optimistic:

Q: Is a person who has had one coronary thrombosis more likely than other people to have a second?

. . . Dr. White: Many heart patients "become perfectly well"

Dr. White: Probably a little. . . . But the majority do not have second attacks.

The Big Question: Running Again—

Confronted with the ever-recurring question—will Ike be able to run?—Dr. White has shown an evolution in thinking from an outright refusal to hazard a guess to a cautious comment on which Eisenhower Republicans can hook their hopes. On September 26, two days after the heart attack, there was this exchange:

Q: Would you give us in your own words whether you think he could run in a political campaign?

Dr. White: I can't. I can't answer that question. Even from the standpoint of his complete recovery, you can't say.

On October 9 the heart specialist touched on the same topic:

Q: You feel it is impossible to say whether he would physically be able to run again?

Dr. White: Oh, yes, I think it is impossible to say.

° ° °

On November 7 Dr. White had more on the subject:

Q: Does a person who suffers a coronary thrombosis ever get back to the point where you could say that he is as well as he was before?

Dr. White: Oh, yes.

Q: Or does he always have to be cautious?

Dr. White: Oh, no. I think that many patients become perfectly well despite the scar in their hearts, and may do everything. . . .

On December 17 Dr. White stirred speculation when he said he thought he "will vote" again for Ike. Many people took this to mean that he would get the opportunity:

Q: Doctor, . . . would you be able to say at this point whether it looks like he would be physically able to run again?

Dr. White: The present trend is good. . . .

Q: If he did seek a second term, would you vote for him? . . .

Dr. White: I voted for him before, and I will vote for him again, I think. . . .

The Crucial Exam Ahead—

The question as to when the President will be given a physical examination on which he can lay his 1956 plans has arisen insistently many times.

On November 7 the doctors responded as follows:

Q: When would the President be in a position to have all the medical knowledge he might need to decide for himself? . . .

° ° °

Dr. White: It might be into January. But it may be longer. I don't know. I have no answer for that now.

Dr. Snyder: I kind of think longer—bit longer.

° ° °

Q: Do you think it may be late January or sometime in February before the President can arrive at a decision on his own future?

Dr. Snyder: I would think so.

Q: Late January?

Dr. Snyder: At least that.

Q: Do you concur in that, Dr. White?

Dr. White: Yes, I concur on that. . . .

(Continued on next page)

DR. SNYDER AND DR. WHITE
Millions are watching for clues to Ike's course

. . . Golf again? Dr. Snyder: "I don't want to make comment"

On December 10, there was more about the time:

Q: Doctor, have you said at what date you will be able to pronounce recovery? . . .

Dr. Snyder: Well, I think if I were in the President's berth and could analyze the situation from his viewpoint, from my knowledge as a physician, that I would not be able to make such a determination . . . for two months. . . .

• • •

Q: I think one time Dr. White told us—at the last conference in Denver—that it would be at least January—at least late January.

Dr. Snyder: Late January, early February, I think was the statement that I made, that I thought, before the President would be in a position—I would give him a little more time, if I were in his position myself.

Q: You are now saying that it would be mid-February?

Dr. Snyder: I would say that.

Gettysburg or the South?—

The question of whether Gettysburg, Pa., is the ideal spot for recovery has been discussed with varying results. On October 9 Dr. White and Dr. Snyder made these replies:

Q: Did you recommend a place to go?

Dr. White: No, that is for the future to determine. . . .

• • •

Q: Is Gettysburg a satisfactory place? . . .

Dr. White: I think it's quite good in the fall. Perhaps in the winter it may not be so good. . . .

Q: Then, Doctor, are you thinking in terms of the Gettysburg farm when he does go East?

Dr. White: That is a probability. What do you [Dr. Snyder] think?

Dr. Snyder: I think it is almost an absolute. . . .

• • •

Q: Doctor, everything else being even, would a warmer climate be better for recovery?

Dr. White: Not necessarily. I think some people go to a warmer climate because they think it may, but they can be uncomfortable, sometimes, in a poorly heated place in Florida in the winter than they may find themselves at home. If they stay home they may be more comfortable. So that it depends on circumstances. But, by and large, if a person has angina pectoris following such a thing—heart attack—as this, or if he has angina pectoris even without a heart attack, that is a symptom of coronary circulation. Then the winter—severe winter weather—in the North is sometimes a hazard, and then the Southern climate would be helpful.

Q: There is no evidence of that?

Dr. White: There is no evidence of that.

On Ocober 22 Dr. White was pressed again:

Q: Have you made a recommendation on that, Doctor, that he go to Gettysburg?

Dr. White: Yes, I feel that that would be the place, I myself believe. . . .

On December 10 this exchange took place:

Q: Would you change the geographical location, Doctor? . . .

Dr. Snyder: I think I could do as well in Gettysburg, if we didn't have the—the President has many interests there.

But, on December 17, only a few days after Clifford Roberts, chairman of the Augusta National Golf Club in Georgia, visited the Gettysburg farm, this statement was made in the Pennsylvania town:

Dr. White: We want him to get some exercise before that [mid-February], and since the weather has been cold here in Gettysburg, he has not been able to get as much exercise as we would have liked. Since the weather may continue to be cold here, it is thought that he might find a visit to the South helpful . . . not because he needs rest for his heart, but because he needs exercise for his health. . . .

The Question of Golf—

What to do about golf has been much in the President's thoughts. Again Dr. White seems more in tune with the President's desires than Dr. Snyder, who shows no enthusiasm for a heart-attack victim's swinging a golf club.

On September 26 this was one attitude toward the sport:

Dr. White: . . . I feel that the golf he played the day before had nothing to do with this attack. I have had many patients who have resumed golf, even who started golf for the first time.

• • •

On December 10 Dr. Snyder backed away when golf was mentioned:

Q: Doctor, as a result of this examination, would you say he would be well enough to play some golf?

Dr. Snyder: I don't want to make comment on that. I know the way I feel about it, but cardiologists very much . . . differ in their reactions as to whether patients with serious cardiac infarct should ever play golf today; that is to say, a point on which cardiologists differ.

Q: What is your view, sir?

Dr. Snyder: I would defer to the balance of opinion among the cardiologists who are—whom I have consulted in this instance.

On December 17 Dr. White had this to say:

Q: Do you contemplate golf as the form of exercise that you say he needs?

Dr. White: Well, a certain amount of it. . . . During the winter, golf in this part of the world [Gettysburg], of course, is not so easily done. . . .

• • •

Q: Doctor, would you expect limited golf in this Southern trip by the President—certain amount of it?

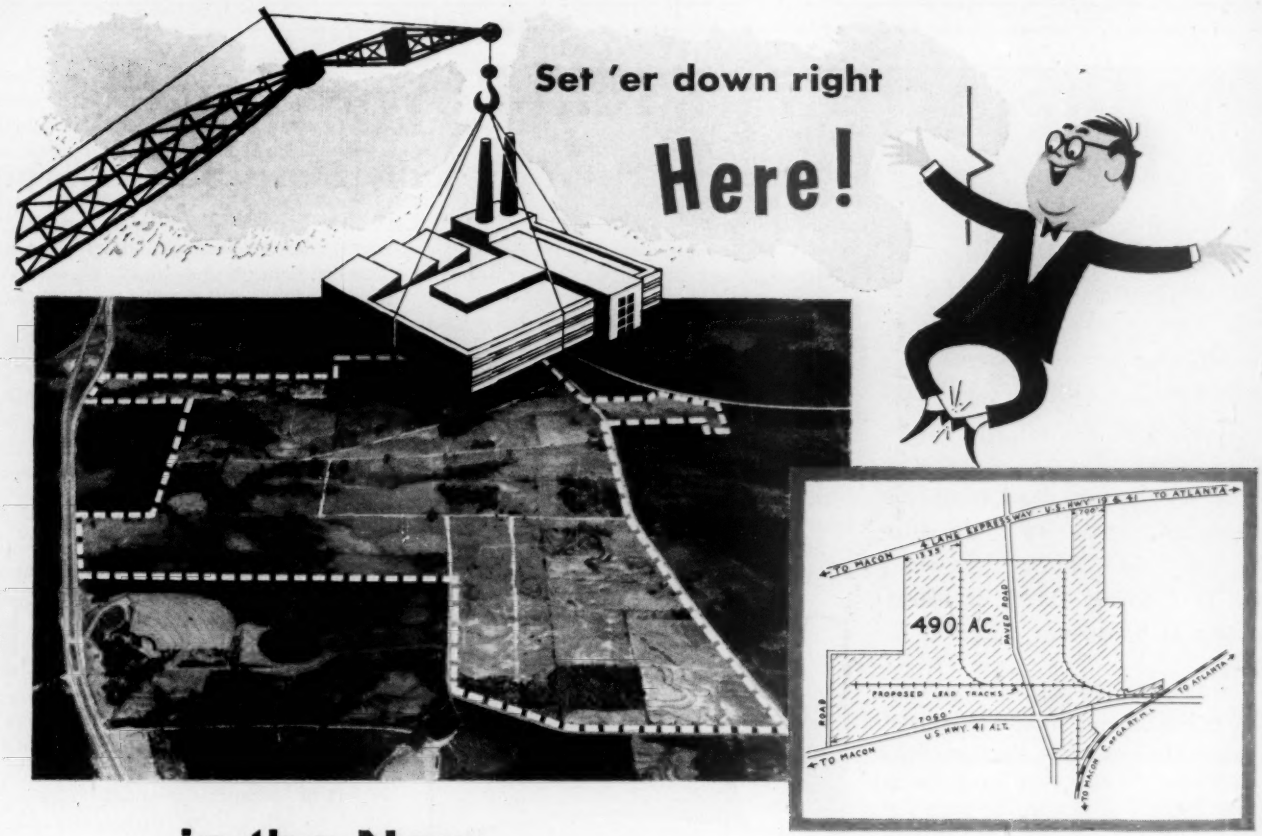
Dr. White: Oh, I think some putting and perhaps some chipping.

Q: But no actual round of golf?

Dr. White: Probably not. Not until spring, in all probability.

It is answers like these that millions of citizens are scrutinizing closely.

Developments point up the fact that Ike now seems to be out of danger, and the medical reports, thus, are not watched with as much concern as two months ago. But they are still being watched, for another reason. More and more observers think the men closest to Ike—his doctors—may offer tips on one of the big questions of 1956: Will Ike run?



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Why U.S. Lags in Atom-Power Race

Little Need at Home, Security Slows Sales Abroad

U.S., the world leader in atomic weapons, is running into serious, unexpected competition in developing atomic power.

Europeans, it turns out, are forging ahead, driven by acute need for power. Even atom power is cheap at present fuel costs.

American industry, despite gains in "Atoms for Peace" plans, is finding itself stymied by cheap U.S. power, tight U.S. security.

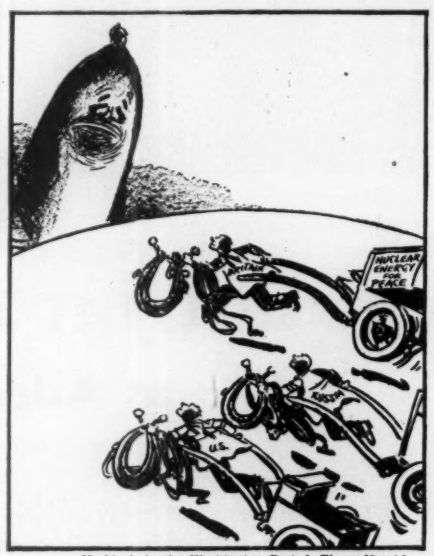
Reported from
PARIS, LONDON and WASHINGTON

All signs indicate that Western Europe is about to take the lead away from the United States in the race for peacetime atomic power. Out of the haze of conflicting reports about what's going on at this time, these facts are emerging:

- Commercial atomic power plants actually are being started in several European countries. Britain has begun on a program to complete 12 such power stations in 10 years. France is building two power reactors. Belgium is buying one.
- Most countries in Western Europe have one or more research reactors, and are giving high priority to plans for atomic power stations.
- Urgency for atomic power is becoming far greater in Europe than in U.S. Present power supplies are both limited and very costly in Europe, abundant and cheap in U.S.
- Right now, nearly any country in Europe could make an atomic power plant pay, even at the presently estimated cost of producing electricity, about 15 mills per kilowatt. In U.S., conventional power costs far less than that, from 3 to 8 mills per kilowatt. This difference in power costs provides the big incentive in Western Europe, the big obstacle in this country.
- American security regulations and red tape also are holding back U.S. development. Europeans, in contrast, have no restrictions surrounding either the design of power reactors or availability of atomic fuel.

The next two or three years will tell the tale. During this period, Europeans expect to develop usable atomic power plants, for producing commercial electricity in sizable amounts. They would like the help of U.S. know-how and U.S. "hardware," but plan to develop their power programs whether or not this U.S. assistance becomes available. Their need for more power is that urgent.

The U.S., meanwhile, with less incentive for developing high-cost power, plans to build its own nuclear power plants in more leisurely fashion, expects to have "economic" power from the atom in about 10 years. How much aid it will provide the outside world is still an unanswered question.



—Herblock in the Washington Post & Times Herald

"HARNESS RACE"
Everybody's getting into it

Policies questioned. All of this is starting to be viewed with some alarm by Americans who want this country to keep its lead with the industrial atom as well as the military atom.

Questions are being raised on that matter from all sides. A look at the principal questions, with the answers that a careful search provides, reveals this:

What's happened to the "Atoms for Peace" plan, launched by President Eisenhower at Geneva a year ago? It has moved fast—up to a point. U.S. has signed bilateral agreements with 24 countries, to provide help in setting up research reactors and to lend the enriched uranium needed for fuel.

Only about 13 pounds of this precious fuel is allowed to each country, however. This is enough for small, experimental reactors, but not enough for a big, power-producing reactor. And the used fuel element, with all by-products, must be returned to the U.S.

Why not provide other nations the means of building a power reactor, with the fuel to try out? That's now considered too dangerous, for one thing, because plutonium is a by-product of power production. With plutonium, in theory, any nation can manufacture atomic bombs.

Here you run into a basic argument, still unsettled. A dictator with plutonium in his possession, so the theory goes, might make it into bombs and attack his neighbors. Some authorities, however, claim this is no great risk because construction of a factory to build atom bombs is beyond the capability of small nations.

Could the U.S. restriction against the export of "weapons quantity" nuclear material be lifted then? Apparently this can be done by the Atomic Energy Commission, without action by Congress. But, even without this restriction, other complications remain.

U.S., at this time, has no atomic power reactors that it can sell, lease or give away for commercial use. It has contracted to ship one to Belgium, but this model is to be a high-cost, low-output type copied from a U.S. submarine power plant and is to be used for opening a Belgian world's fair in 1958.

Nor is there, apparently, the big future market in Europe for U.S. power reactors that American industry has talked about recently. Reactors could be sold easily at this time, if available. But, lacking that, Europeans are determined to build their own industry. The practical demand is for hard-to-engineer U.S. parts, for some U.S. technical know-how, for atomic fuel—for help in tooling up Europe's industry. Indications are that, when U.S. power reactors are exportable in quantity, Europeans may have their own.

Where, then, is the big natural market for American power reactors, when economic models are developed? Not soon at home in U.S., where conventional power is so much cheaper than any looked-for atomic power. Not so much in Western Europe, where many countries want power reactors but not especially American ones, if efficient types can be built locally. Not in Japan, even, for the same reason. Not in Southeast Asia, at the moment, for fear of Communists taking over

that area. Maybe in Latin America, or so some U. S. industry people conclude. The demand there is real and present power costs high. Yet here the urgency is limited by the difficulty in drawing out dollar profits.

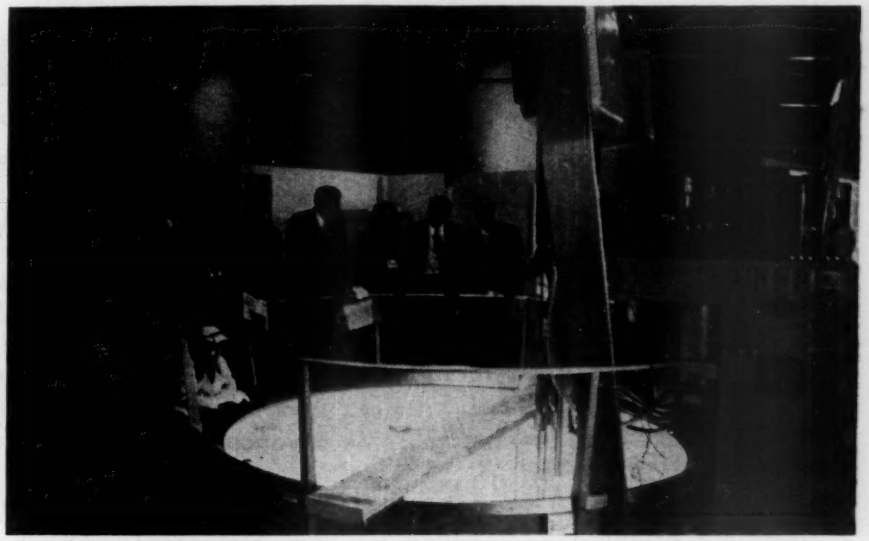
Atom co-operative? In Europe, meanwhile, all sorts of plans are churning around. There is a plan for creating a "Euratom," along the lines of the European Coal and Steel Community. Also an International Atomic Agency sponsored by the United Nations is in formation. **Morehead Patterson,** president of American Machine and Foundry, as the U. S. representative, helped draw a statute for the Agency sent to 84 nations. Now Russia has agreed to join and will meet with others early in 1956.

Each country in Western Europe, too, is advancing with its own program for acquiring atomic power.

France, for example, with considerable amounts of uranium available, is known to be well along. The French expect to produce usable electricity from a small research reactor in 1956 and, by 1962, have an atomic power capacity of at least 100,000 kilowatts. They plan to double their atomic power capacity every four years after that. Private companies participate in the French program, with all plutonium turned back to the French atomic commission.

The British, with their program to build a dozen huge commercial power stations under way, expect to supply a large share of their power needs from atomic energy within relatively few years, an estimated 40 per cent by 1975.

The West Germans, their power supply even more acute, have equally ambitious plans. A "heavy water" facility is expected to be ready within a year or two, with commercial atomic power to be produced on a sizable scale, apparently, soon thereafter. Germans indicate that they will not join any international atom co-operative, but have their own plans for developing power unilaterally.



U. S. "ATOMS FOR PEACE" EXHIBIT AT GENEVA
Since then, other nations have forged ahead

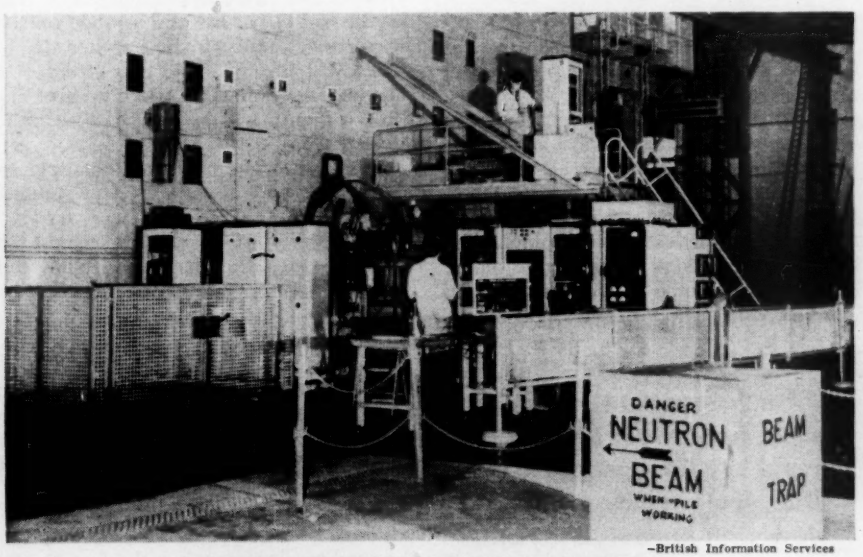
More reactors planned. Other countries have made various degrees of progress, though none has a power reactor in operation now. Belgium, with a small U. S. reactor ordered, plans to build a big one—in the 100,000-kw. range—in the next few years, after a research program is completed. Sweden, too, has an experimental program under way. Italy is currently trying to buy one or more big reactors to study. The Netherlands is seeking a large research reactor. Switzerland now has an old U. S. reactor, is using it to set up an atomic power program.

At least 10 countries now have atomic reactors big enough to actually produce plutonium in greater or lesser quantities. And at least 20 more countries plan to have these major reactors operating in the next few years. The big demand in Europe now is for local atomic power industries, using large power reactors with a minimum electrical capacity of 10,000 kw. and a preferred capacity of 100,000 kw. Countries with immediate fuel shortages—such as West Germany, the Netherlands, Italy and Israel—are developing power programs with the greatest sense of urgency and major Government investment of funds.

American companies, thus, despite the impetus of the Eisenhower "Atoms for Peace" plan, find themselves about to lose out in the international power race—unless some unexpected development changes the picture in the period just ahead.

West Europeans, it is now becoming clear, have the big incentive, the markets, and are acquiring the know-how to forge ahead. Even Russia, faced with a grave power shortage at home, has more incentive to speed development of usable atomic power stations.

Americans, instead, find themselves coping with both Government restrictions and the economic laws of power costs, with serious competition on their hands and no answer yet in sight.



—British Information Services

BRITAIN'S RESEARCH CENTER AT HARWELL
. . . an ambitious program for atomic power

For views of the chairman of the Joint Committee on Atomic Energy in Congress about reducing U. S. atomic security restrictions, see page 104.

WHAT YOU SHOULD KNOW ABOUT WAYS TO SAVE ON YOUR TAXES

A Little Planning, and You'll Come Out Money Ahead

If you are one of the millions who think of taxes only when April 15 rolls around, you may be missing a real bet.

Now, more than ever before, some advance planning will pay off.

Just last year, Congress voted a major overhaul of tax laws, opened the way for taxpayers—little ones as well as big ones—to get major savings in taxes.

Look for them, and you will find possible savings all through tax laws—in deductions, exemptions, tax-free income, gifts, trusts.

Following is a detailed explanation of how you can cash in on what the law allows.

Too many people are overpaying their taxes these days. That's an official opinion.

What is happening, officials explain, is that—for one thing—people are waiting too long to start thinking about their annual tax returns. If you are one of these people, you are in the company of 1.5 million taxpayers who overpay their taxes.

Even more people, though, are making a bigger mistake. They are failing to plan their affairs in such a way as to avoid taxes that they need not pay. Most people, officials say, forget taxes the minute they have filed their returns. Yet the fact is that your real chance at tax savings lies in planning your income and outgo so as to avoid taxes by legal means all year long.

Key to tax savings is this: Spend your money with just a bit of forethought and you earn an easy dollar. Spend it the wrong way, or at the wrong time, and you lose a dollar. The same rule applies to the form in which you take your income, to when you take it and even to your decision to take it at all.

Tax avoidance—as distinguished from "tax evasion" of the fraudulent sort—is an honorable practice officially recognized as every taxpayer's right.

Actually, most taxpayers try to avoid taxes in some small way—even if they do no more than make sure their charitable contributions are of the sort that can be deducted. To make a good thing of tax avoidance, you need to go further.

You may, for example, be one of the millions who find they cannot scrape up enough deductions to exceed the "standard" allowance—10 per cent of income up to $1,000 of deductions. With, say, $10,000 of income a year, you settle for the standard $1,000 deduction. You may be able to do better, however, by alternating your deductions.

Here's how: In the year when you take the standard $1,000 deduction, you can put off paying deductible expenses—doctor bills, State and local taxes, any other items—until after the end of the year. Then, in the following year, pay those deferred expenses, plus all current expenses that are deductible. Late in this second year, you pay up in advance some deductible expenses that you ordinarily would not meet until the year after. This way, you crowd into one year a full year's expenses, plus some of the expenses of the preceding year and the following year.

Or take the way in which you accept income. Often, it is best to put off the actual receipt of money.

A middle-aged man alert to tax savings, for example, may find U. S. savings bonds an extra-good bet. If he now is in the 50 per cent bracket on income taxes, Internal Revenue grabs $500 out of each $1,000 of his investment earnings. But note this: He does not have to report that interest income as it builds up. He can postpone payment of taxes on his interest from savings bonds until he cashes them in. And they draw interest for 20 years.

Say he buys enough series E bonds now, at age 45, so that at age 65 he will be due $1,000 of accumulated interest. By then, he and his wife will be ready to retire on a $5,000 income—with a low rate of tax. He cashes his bonds then and pays a tax of $200 on the $1,000 of interest. He saves $300.

Or let's assume you are supporting your elderly mother. If you are in the 50 per cent bracket, you have to earn an extra $400 a month in order to pay her $200 a month. However, you can put enough income-producing property in trust for her to earn about $2,600 a year for the rest of her life and arrange for the property to return to you at her death.

She will have $2,400 a year after taxes. The tax on earnings necessary to give her $200 a month will be only $200 a year, instead of $2,400.

These are only examples that help to show the variety of ways to "save" money by avoiding taxes.

To help you become an expert at avoiding taxes, the pages that follow tell some of the best tax-saving angles.

For suggestions from a noted tax lawyer on how to avoid paying more taxes than you should, see interview with Randolph E. Paul, beginning on page 56.

Tax-Free Income

Switching to income that is exempt from tax is an ideal method for tax avoidance. Your chances of enjoying tax-free income, however, are slim unless you plan ahead.

Retirement income offers an example. Millions of individuals now are looking forward to the time when the first $1,200 of their income will be exempt from the first-bracket rate of 20 per cent. This

"retirement income" credit is in addition to the doubled personal exemptions allowed starting at age 65.

These two aids can mean complete tax freedom for most retired individuals. The retirement credit alone means a tax saving of up to $240 a year, an important saving for retired individuals, or up to $480 where husband and wife both qualify.

First, however, you'll have to arrange to receive retirement income of the sort that qualifies. Included are interest, dividends, rents, pensions and annuities to the extent that these are counted as taxable income. If, when you retire at age 65, you have none of these forms of income you get no retirement credit.

You may want to start now to acquire some investments—stocks and bonds, for examples—that will yield some tax-free income after your retirement.

Perhaps you already are retired and claiming this retirement credit. If so, you may be overlooking a chance to claim it for your wife, too. If she has passed the "work test"—that is, earned at least $600 in each of some 10 years in the past—she is eligible, too. But she has to have "retirement income." If you transfer some of your stock to her, you each may save $240 a year.

Many younger wives worked five to nine years, then quit. By returning to work for a time, they can complete a record of 10 working years and, thus, get ready for a tax saving in retirement of $240 a year.

Dividends, at the same time, can get you another element of tax exemption whether you are retired or not.

The first $50 of the dividends you receive on corporation stock in each year is tax-exempt. If both husband and wife have dividend income, then the amount to be exempt is $100. For example, a couple with $2,000 invested in stock yielding 5 per cent would get dividends tax-free. To get this much of a credit, though, you and your wife must each own stock separately. Or, if you prefer, you can hold your shares jointly. If all your stock is in your name, you may find it a good idea to transfer part of it to your wife, or hold it jointly.

Here's something else to remember when planning your tax avoidance—particularly for the long run. Your dividend income now gets you a flat tax cut amounting to 4 per cent of all your dividend income except the $50 that is tax-free. If you and your wife own shares that yield $700 a year, then you figure your regular tax and reduce it by $24.

If your dividend income is $10,000, you get a flat tax reduction of $396. The reduction, however, cannot be more than 4 per cent of your taxable income.

For the long-term picture, keep this in mind now: These two tax breaks given to stockholders are only the first steps in an effort to eliminate "double taxation of dividends"—taxed once to the corporation and once to the shareholder. President Eisenhower has given support to complete elimination of this double taxation.

The point is that in the future the tax credit, or flat cut, given for dividend income may be far more than 4 per cent of dividends. It could be 20 per cent, as it is now in Canada. That's something to remember in investing now for future years, including retirement.

Tax-exempt bonds, issued by State and local governments, usually are thought to offer tax savings only for the highest-income individuals. The fact is that they offer savings even to investors in the medium to lower levels of income.

Take, for example, a municipal bond yielding 2.5 per cent. In after-tax income, that yield is equal to the return on a taxable bond paying 3.12 per cent for the taxpayer in the lowest bracket. For a taxpayer in the 50 per cent bracket, that 2.5 per cent yield is equal to a 5 per cent yield on a taxable investment.

For taxpayers in still higher brackets,

What Taxes Really Take Out of People's Total Incomes

Income Group*	Average Income	Average Tax (federal)	Average Amount Left After Tax
Under $3,000	$1,934	$166	$1,768
$3,000 to $5,000	$3,945	$393	$3,552
$5,000 to $10,000	$6,481	$833	$5,648
$10,000 to $15,000	$11,879	$2,059	$9,820
$15,000 to $20,000	$17,160	$3,574	$13,586
$20,000 to $30,000	$24,111	$6,025	$18,086
$30,000 to $50,000	$37,653	$11,970	$25,683
$50,000 to $100,000	$66,368	$27,694	$38,674
$100,000 to $200,000	$132,024	$66,238	$65,786
$200,000 to $500,000	$279,165	$155,006	$124,159
$500,000 to $1,000,000	$670,216	$396,548	$273,668
Above $1,000,000	$1,954,216	$1,217,541	$736,675

*Income before deductions and exemptions. Figures exclude tax-exempt income, such as interest on municipal bonds.

Note: Figures are based on Statistics of Income for 1952, published by U.S. Treasury.

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[continued] # WAYS TO SAVE ON YOUR TAXES

of course, the relatively low return on tax-exempts turns out to be a really high return in after-tax income. To beat the after-tax income he gets from a 2.5 per cent municipal bond, a taxpayer in the 75 per cent bracket would have to find an investment with a 10 per cent before-tax yield. And the man in the top bracket would find that 2.5 per cent issue just as valuable as a taxable investment yielding 27.78 per cent.

Don't overlook this, however: Because of this tax-exemption feature, municipal bonds sell at prices that keep their yield somewhat lower than on taxable bonds. At the moment, high-grade municipals generally sell at yields that are about three fourths of a percentage point below top-grade corporate securities. In figuring your after-tax yield, you need to remember this in order to make clear comparisons.

Other tax-free income, too, can be enjoyed if you plan things right—or lost if you ignore your opportunities.

The sick-leave pay that you draw in at least some amounts in nearly every year offers an example. It's unlikely you will want to arrange to get sick, or hurt, but you will want to see to it that your sick-leave pay is tax-free up to $100 a week. To do that, you need to keep an eye on the rules.

The chief rule is this: For an absence from work due to injury, the tax exemption applies to your pay starting immediately. But, for sickness, the exemption doesn't apply to the first week unless, at some time during the illness, you spend a day in the hospital.

That points up three lessons to keep in mind:

First, don't be hesitant about going to the hospital if you need to, particularly if you have hospitalization insurance. A day in the hospital, which may cost you nothing, will mean that as much as $100 of your pay will be tax-free.

Second, if you are injured or become ill, make sure your employer lists your absence as sick leave and keeps the appropriate records.

Third, make a note to claim this amount of tax-free income when you make out your return in the following year.

Remember: For three weeks of absence in a year, the right action can mean a cash saving of $60 for the man in the lowest bracket, or—for another example—an extra $150 in cash for the man in the 50 per cent bracket.

Life insurance also can get some tax-free income—if not for you, at least for your wife after your death. Here's how: If you arrange to have your policy pay off in a lump sum to your wife, she may invest the proceeds. Unless she buys tax-free bonds, the income from her investment will be taxable. But you don't have to make the policy pay off in a single payment.

You can, instead, arrange to have the proceeds left with the insurance company to draw interest, with your wife to receive payments in installments. Each installment will be partly insurance proceeds and partly interest. The insurance proceeds, of course, will be entirely tax-free. In addition, up to $1,000 a year of the interest she receives also will be tax-free.

Incidentally, the death benefits paid to your wife by your employer after your death will be tax-free up to $5,000. This is true whether the amount is paid under a contract or not. And it applies to any lump-sum payment made to your widow under pension, profit-sharing or stock-bonus plans if those plans qualify under Government regulations.

If your employer has no such plan for his employes, you may want to check the possibilities. Or, if you as an employer have no such plan, you might want to consider the idea for its possibilities in giving workers tax-free income.

These are all tax-avoidance opportunities offered specifically and purposely by Congress. Taxpayers are expected to do everything they can to arrange their affairs in such a way as to benefit from the proffered opportunities.

There are many other kinds of tax-free income. In some cases, though not many, an individual can take action to receive these forms of income. The main thing, though, is to remember that these kinds of income are tax-free and need not be reported for tax purposes.

Postponing Income

The form of tax avoidance that has gained most in popularity in recent years is income deferring. With tax rates running up to 91 per cent, more and more people are looking for ways to put off the actual receipt of income until a later period in which they expect their income to be smaller—and taxed at lower rates. In most cases, that period is after retirement.

This is an area of tax avoidance where planning can pay off in a big way.

The practice of postponing the report of interest on savings bonds until retirement—a good idea for anybody—offers at least one special situation that applies to some taxpayers. These are people whose bonds quit drawing interest in the year the individuals reach age 64.

Take the man in the 50 per cent tax bracket, for example. If he reports all of the $1,000 of accrued interest on his bonds in the year he reaches 64, he pays a tax of $500 and keeps $500.

If he waits a year until he retires on a lower income, he may be in the 20 per cent tax bracket. In that case he pays only $200, or $300 less. Of course, he passes up a year in which he could have invested his money. He foregoes, say, a 4 per cent return on the $500 he could have invested—losing $20. So his net saving in cash will be $280.

There are many other ways to defer income.

Annuities offer an example—and perhaps a chance at some tax-free income as well. The savings you invest in annuities will draw interest, but that interest will not be taxed until the policy matures, when you ordinarily will be retired at a lower income.

Assume, for example, that over the years you invest $15,000 of savings in an annuity that will accumulate enough interest to pay you $1,200 a year for life starting at age 65. At that time, your life expectancy is 15 years.

Here's how the tax on that $1,200 will be figured. By the law of averages—and the tax law—you will be expected in your remaining 15 years to get back your $15,000 cost at a rate of $1,000 a year. So $1,000 of your $1,200 in annuity income will be tax-free—as a return of your cost. You will be taxed only on $200 a year and probably at a low-bracket rate at that.

What happens if you outlive your life expectancy? You then will already have gotten back the $15,000 cost of your annuity. But you still will continue to count $1,000 of your $1,200 annuity as tax-exempt. Every year you outlive your expectancy you'll get a bonus grant of tax freedom for $1,000 of income.

Here's another angle to keep in mind in your planning. For retired people drawing old-age pensions from Social Security, every pension dollar reduces the $1,200 on which they figure their "retirement income" credit. But that's not so of your tax-free annuity income.

Deferred compensation offers another example of income postponement that has become highly popular.

The example of a $100,000 executive shows why. If he is married, the tax collector will take $53,640 of his annual pay, leaving him $46,360. In a period of 10 years his after-tax pay will come to a total of $463,600.

But say the corporation contracts to pay this executive only $60,000 a year

Saving Tax Money—

THREE WAYS TO PASS YOUR ESTATE TO THE CHILDREN

AMOUNT OF YOUR ESTATE	Total Estate Tax — Your Own and Your Wife's Combined		
	PLAN ONE Leave entire estate to wife, to be passed on to children at her death	**PLAN TWO** Leave entire estate to children	**PLAN THREE** Leave half to wife, half to children, wife to pass hers to children at her death
	Federal estate tax will total	Federal estate tax will total	Federal estate tax will total
$150,000	$18,264	$17,500	$2,100
$200,000	$34,937	$31,500	$9,600
$300,000	$71,770	$59,100	$35,000
$400,000	$110,128	$87,700	$63,000
$500,000	$148,754	$116,500	$90,600
$1,000,000	$350,087	$270,300	$233,000

Note: Tax figures assume husband owns entire estate, dies more than 10 years before wife.

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for 10 years in which he is actually "employed" by the firm, plus $40,000 a year for an additional 10 years.

If this is done, the tax collector will take $264,400 of the $600,000 paid to the executive in the 10 years of his "employment." He keeps $335,600.

In the following 10 years, Government will take a total of $145,200 of the $400,000 the executive is paid. So he will keep $254,800.

The executive will have received the same 1 million dollars, but spread out over 20 years instead of 10. He will have paid $409,600 in taxes, instead of $536,400. Result: The executive has an extra $126,800 in cash to spend.

Here's a pitfall to watch out for if you go to your company for a contract like this, however: If your right to the added income after employment becomes fixed during your employment, then Internal Revenue will not recognize the deferred-compensation plan. So it's necessary to make your receipt of the added income in years after employment dependent on your performing some service—say, rendering advisory services or attending board meetings.

Large fees received in one year for, say, professional services will boost your income into the upper brackets. But you may avoid this. You may, in fact, be able to get the tax benefits that go with deferring of income.

Lump-sum payments for personal services rendered over a period of 36 or more months may, in effect, be spread out over the period during which the income was earned—provided at least 80 per cent of the payment was received in one year. Lawyers, engineers, other professional workers who often work on a project for a long time can use this angle.

Take a lawyer who worked three years on a case and drew his $90,000 fee in 1955 when the case was closed. He can assign $30,000 to 1953 and $30,000 to 1954 and figure how much that added income would increase the tax he already has paid for those years. He includes the other $30,000 in his 1955 income.

The lessons: First, if you have a job that might be finished in, say, 35 months, stretch it out. Second, if you expect to receive partial payments in small units while you work on the case, try to make sure those payments do not come to more than 20 per cent of the total fee.

Incidentally, there is a rule quite similar to this for inventors, artists, writers, composers and the like.

Pension plans are another increasingly popular method of deferring taxes on employe income. As an employer you may find your "payroll dollars" will go further if put in the form of pension contributions. If your plan qualifies under tax rules, the amounts you put in each year will be a deductible expense to the company. Yet the amounts will not be taxable income to the employes.

Only when the plan pays off in the form of pensions do employes report the amounts received and pay taxes on them. But then their income is smaller, their taxes are lower.

Keep this fact in mind, too: The earnings of the trust fund built up by your contributions also are tax-free to the trust.

It's just as if the employe received annual income and invested it, with neither the income nor the investment earnings being taxed until the employe started cashing in at retirement.

The main requirement that such plans must meet is that they cannot discriminate in favor of highly paid employes or any other restricted groups of workers. Also the trust fund must be used only for the benefit of the employes or their beneficiaries.

If you already are covered by a plan like this, here's a point to keep in mind: If—because you leave the company or die—you receive in a lump sum all you are entitled to under the plan, the amount

[continued]

WAYS TO SAVE ON YOUR TAXES

will be taxed as a capital gain. You pay a top rate of 25 per cent.

Profit-sharing plans adopted to give your employes a pension program have at least one advantage over a pension plan of the ordinary type.

If you contract to pay a particular sum into a pension plan—say 8 per cent of each worker's annual pay over a basic amount—you'll have to go through with it—whether you earn profits in the year or not.

On the other hand, you can contract to pay, say, 25 per cent of your annual profits into the trust fund. In a year when you earn no profits, you need make no contribution.

If you are considering one of these plans as a method of paying deferred compensation to your top executives, keep this in mind: You will be prohibited from "discriminating" in favor of those executives. But this does not mean you have to contribute for every worker the same dollar amount or even the same percentage of total annual pay.

You can, for example, contribute 8 per cent of each employe's pay in excess of $4,200—the basic wage covered by Social Security. This means a contribution of $64 a year for the $5,000 employe, $464 for the $10,000 junior executive and $3,664 a year for the $50,000 executive.

If you are a member of management in a company that has no pension or profit-sharing plan, you might find it advantageous to note that point.

Stock options for employes are another income-deferral plan that means possible tax savings for the employe—and, looking at it another way, cash saving for the employer. For the employer, it can mean paying the employe a particular amount of after-tax income at a far lower cost than is involved in outright wages or salary.

Under a stock-option plan, the employe is given an option—that is, the right—to purchase some of the company's stock at a particular price, normally a price lower than the value of the stock at the time the option is granted.

Assume, to illustrate, that you are an executive in the 75 per cent tax bracket. If you get an ordinary raise in salary, you can keep only $1 of each $4 of the raise. To give you an additional $10,000 in after-tax salary, your corporation must raise your salary by $43,158.

Say, instead, that your corporation grants you an option to buy 3,000 shares of stock at $95 a share. The stock has a market price of $100 when the option is granted, so the deal costs the company $5 a share, or a total of $15,000. You exercise your option and hold the shares until at least six months after the purchase date and two years after the date the option was granted.

If the market price of the stock fails to rise, you still make a profit of $5 a share, or a total of $15,000. And you pay only the capital-gains tax of 25 per cent. So you get to keep $11,250.

Or suppose that, while you held the stock, it doubled in price, went to $200. Your profit then is $105 a share, or a total of $315,000, and you still pay only the capital-gains tax. You keep $236,250.

For all of your gain to be treated as a capital gain, your option price must be at least 95 per cent of the stock's market price at the time the option is granted, and some other requirements must be met.

Now see what happens if your option price is between 85 and 95 per cent of the stock's market price—say $85 when the market price is $100. Cost to the company then is that difference of $15 a share, or $75,000 on 5,000 shares.

Assume, to illustrate, that in the six months or few years you hold the stock its price goes to $110. To start with, you've made $15 a share on your option to buy at $85 a stock that was worth $100. This part of your gain is $75,000. It is taxed as regular income to you. So you get to keep only $15,600 of it.

In addition, though, you have $10 a share on the 10-point rise in the stock, or $50,000. That is taxed as a long-term capital gain at 25 per cent. So you get to keep $37,500.

Altogether, you have an after-tax gain of $53,100. And it cost the company only $75,000 to give it to you. To give you an extra $53,100 in direct income, the company would have had to pay you a taxable bonus of $445,555.

Hundreds of corporations have taken advantage of rising stock prices in recent years to give many thousands of executives more compensation through stock options—and at relatively small cost to the companies themselves.

Here's a special angle to watch, whether you are an employer or an executive. The law says that, where a stock option meets the requirements, the employe receives no taxable income at the time the option is granted, or when it is exercised. He realizes income only when he sells—and then largely, or wholly, in capital gain that has a low tax.

Now, a high federal court has ruled that even if the requirements are not met the employe may realize no income on receiving or exercising an option. No income is received, says the court, if the option is granted, not for the purpose of giving the executive added compensation, but primarily for the purpose of giving him a proprietary interest in the corporation. If this ruling stands up in the Supreme Court, it's going to be still easier for corporations to grant their executives stock options.

There are still other ways to defer income until the individual is in a lower tax bracket.

Endowment policies and annuity contracts, for examples, are useful in postponing investment income. Earnings on the investment feature of these policies are not taxed until the policy matures or is surrendered for cash. That angle may help a lot to offset the objection that long-term inflation can take some of the value out of such fixed-return investments.

Dividing Income

Splitting up income into two or more sections is another good method of tax avoidance. Result is to avoid the higher rates that apply to upper-bracket income. The income splitting that goes with joint returns for married couples is only one example. Others require some planning and action, but they can pay off in really significant savings. You may avoid some estate taxes in the bargain.

Salaries to family members may be a good idea for your business. You are providing funds for your family anyway, of course. So you might as well let your business supply those funds as a deductible cost—if you can do it legally and in good faith. Your wife, older son or daughter may be able to earn a good deal of money in this way, at a far lower cost to you. The money they get in this way will be taxed at their own low-bracket rates.

This device may get you two personal exemptions for the price of one. Thus, if your children are under age 19, or in school, their earnings probably will not deprive you of their exemption. And, when they report their earnings, they take their own exemption, too.

But note this: Jobs you give your family members must be bona fide. The work must be necessary and actually performed by them. And the pay must not be unreasonably high. Remember, too, that if the income they earn is actually used for their support, you may lose your children's exemptions.

Family partnerships often come in handy for splitting income.

Assume, to illustrate, that you are married and that you have two children and a $100,000 income from your busi-

ness. If your entire profit is taxed to you individually, Government will take $51,192. If, however, you give a 25 per cent share of the business to each child, the total tax on the $100,000 will be $37,414. You save $13,778.

You'll have to watch your step, of course. The partnership arrangement must be real, not mere fiction, and it must be made in good faith. Gifts of interest to other family members must be made with no strings attached. Also, if your business is one in which income is largely from personal services, the new partners will have to contribute substantial services or capital.

Note, however, that if yours is a business in which capital is important, Internal Revenue will recognize the partnership even though one or more of the partners get their shares by gift from you.

Also, you may have a gift tax to pay when you give part of your business to a family member. Yet it is not likely to be big enough to offset the income-tax savings that will result over the years ahead. And, if you give carefully, you may avoid gift taxes entirely, as well as some estate taxes.

Income-producing property can be given to family members and, thus, split up the family income.

Assume, to illustrate, that you are in the 75 per cent bracket. You are using $10,345 of your dividend income in this way: You pay $7,345 of it to the tax collector and turn the remaining $3,000 over to your son for college expenses. That's pretty costly.

Suppose, instead, that you give your son corporation shares yielding $3,500. He'll pay a tax of $411, and keep $3,089. He'll have his $3,000 to spend. You'll have $6,845 of dividends for yourself—or $1,985 after taxes.

Family trusts offer another handy way to divide income and, in many cases, gain some other tax advantages as well. There's a widespread tendency to regard trusts as something useful only to the well to do. The fact is that far more people could use this device than now use it.

The example of the man who transferred property to a trust set up for his mother's support is only one. There are many others.

Take the father who wants to transfer property to his son. He knows he wants to do it sometime, but how can he give valuable property safely to a minor? And how can he have the income from the property taxed at low rates? A trust may be the answer.

If he gives income-producing property to his son in this way, the father can shift that income out of his high tax bracket into a low bracket—probably the lowest one, at 20 per cent. And he can appoint a trustee to manage the property until the son reaches maturity, when the son can handle things himself.

If income from the property is, say, $1,000 a year for 10 years, and the father is in the $35,000 income group, the father's tax on the property income of $10,000 would be $5,000. If the property is transferred to a trust, the tax may be less than $2,000—for a saving of more than $3,000.

You'll find, in considering a trust, that it is a flexible device. You can, for example, arrange for the property and all the accumulated income to go to your son—or other beneficiary—at the end of the specified period.

Or you can arrange for the trust's original property—or capital—to return to you at the end of the period, with the income to go to your son over the years of the trust. This way, the main property—the capital of the trust—comes back to you for, say, your use in retirement.

Important rules are involved here, if the trust is to divide income successfully for tax purposes.

First, the trust must be fixed—that is irrevocable—for a term of at least 10 years, but there are exceptions. One is that it can be for the life of the beneficiary.

This exception means, for example, that you can set up a trust to provide a lifetime income for a parent, even though the parent's life expectancy is less than 10 years.

Second, the income from the trust must not be used to discharge a legal obligation of yours—that is, the donor's. For example, you can't use the device to provide for the support of a minor child of yours during your lifetime. But, so long as the income is not actually used for your child's support, you still can arrange for that income to go to your child or be accumulated for him.

Third, you—as the donor—cannot keep control over the trust property or income during the life of the trust. The trustee must have that control.

If, in setting up a trust, you fail to meet any of those requirements, then income from the trust will be taxed to you—just as if you were receiving it.

Parents who have several family members to be benefited may want to set up a separate trust to accumulate income for each—rather than one trust for all. This will split income into smaller segments and keep it in lower tax brackets. Also, each trust gets an exemption of $100—or $300 if it does not distribute income currently.

And keep this in mind in deciding what is to happen to the trust property: If you arrange for the property to return to you at the end of a specific period—or at the death of the beneficiary before that period ends—the property then will end up in your estate. If you arrange for the property to go to the beneficiary—along with the accumulated income—at the end of the trust period, or to go to other family members if the individual dies during

Here's a Tax Angle on U.S. Savings Bonds

Tax payment on interest that accrues from a series E savings bond can be delayed until the bond is cashed in.

EXAMPLE:

Married taxpayer, age 45, with $28,000 a year of taxable income (income after tax deductions and exemptions), buys a $10,000 E bond, holds it for 20 years. By then, he is 65 and retired on a taxable income of $5,000 a year.

TAXPAYER'S CHOICE:

1. Pay taxes on interest as it accrues each year over 20-year period. Total interest on $10,000 bond: $5,968
***Total tax:* $2,804.96**

2. Wait until age 65, when income will be smaller and the tax rate lower. Then cash in bond and pay the tax in one lump.
***Total tax:* $1,431.68**

TAX SAVING: $1,373.28

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[continued] # WAYS TO SAVE ON YOUR TAXES

the trust period, then the property will pass out of your estate and not be subject to estate taxes at your death.

You will, of course, have to take note of gift taxes on any property you transfer in this way.

Changing the Form Of Your Income

There are still other things you can do to your income to protect it from the tax collector. One is to change the form in which you take income. You'll find it hard to take this tack unless you are a businessman or an investor—but it can pay off handsomely where it works.

Business income, for example, can be received directly as the profits of your unincorporated business—or as salary and dividends if you incorporate. Keep in mind that a salary will be deductible by the corporation, but you will pay a personal tax on it as income. And dividends will be taxed twice—once to the corporation and again to you. But you may not want to draw out much, if any, in dividends.

What this means to you, in tax angles, depends partly on the size of your business earnings and the amount you want to plow back into the company.

Assume, to illustrate, that your firm nets $50,000 a year, and that you need $12,000 a year—after taxes—for living expenses of your four-member family. You want to put the rest of the earnings back into the firm.

If your business is unincorporated, your total tax will be $18,294—leaving the $12,000 you need, plus $19,706 for company growth.

If you are incorporated, and draw your income as salary—taking no dividends—your personal and corporate taxes will total $15,450. You will have an extra $2,844 for the firm.

On this basis, the tax advantage obviously is with the corporate form. And the advantage increases with the size of the firm and its earnings. The advantage, on the other hand, diminishes rapidly when a larger portion of profits is withdrawn for personal use or outside investment.

If your big goal is to build up the firm by plowing back profits, note that the new Tax Code makes it a good deal easier—and safer—for a corporation to retain its earnings. There is far less risk now than previously of the tax penalties that can result from a charge that the corporation is keeping its earnings just to avoid taxes on dividends.

The decision to incorporate, however, involves a good many other tax angles—as well as important problems not concerned with taxes. There's a new wrinkle that may help you, though. The law now permits an independent business or a partnership to be taxed as a corporation without actually becoming a corporation.

Multiple businesses, too, can affect your income and your tax bill. Since the first $25,000 of corporation income is taxed at the lower rate, there can be substantial tax savings in putting your business operations under more than one corporation.

Take the corporation earning $100,000 a year. Its tax now is $46,500. If it divides its operations under two corporations, each earning $50,000, the total tax would be $41,000—for a $5,500 saving.

Or you may want to consider dividing operations between a corporation and a proprietorship or partnership.

A warning on this angle: If you take action along these lines, be sure there are good and logical reasons—aside from taxes—for splitting the business. Otherwise, Internal Revenue will attempt to tax all the income in a hunk.

Capital Gains

When it comes to changing the form of income, easily the most popular way is the conversion of ordinary income into capital gains, specifically long-term capital gains. Reason is that this type of income gets preferred tax treatment.

Capital gains—your profit on the sale of a "capital asset"—are taxed in a special way if you have owned the asset for more than six months. Short-term gains are taxed as ordinary income. But a long-term gain bears, at most, only half the tax that falls on ordinary income—since only half the gain is taxable. And the maximum tax on a long-term gain is 25 per cent.

This special rule can benefit taxpayers at any income level. Biggest savings, however, are in high-income brackets.

In the lowest tax bracket, for example, $1,000 of additional income will call for a $200 tax if it is ordinary income and only $100 if it is a long-term capital gain.

For single people with a taxable income yearly of $16,000—or $32,000 for a married couple—$1,000 of additional income calls for a tax of $500 if it is ordinary income and only $250 if it is a long-term capital gain.

At income levels above this, rates on ordinary income go right on up—until at $200,000 of taxable income, or $400,000 for a married couple, $1,000 more of income requires a $910 tax. But the tax on $1,000 does not go beyond $250 for a long-term capital gain—no matter how high the income of the taxpayer.

There are several ways to make the most of the rules on capital gains.

Long-term gains should be taken, of course, in preference to short-term gains, wherever you can. That is, do not sell out until after six months have passed. You may take some risk in holding on until the deadline is past—your stock or other assets may take a dive in market value. On the other hand, the value may rise.

Assets that rise in value may offer better investment opportunities for you than those paying income currently. Sale of an asset that has risen in value will get you a profit taxed at the lower rate allowed for capital gains.

Stocks of corporations that make a practice of plowing back most of their earnings offer an example. They tend to rise in the market. As a result, they're highly favored by taxpayers in the upper-income brackets. To see why, take the example of a married man earning $35,000 a year who invests $1,000 in a corporation earning 5 per cent a year.

If the corporation pays out all its earnings currently, this investor will receive $50 a year in dividends, and keep $27 of it after taxes. In five years he nets $135.

If the corporation reinvests its earnings, and its stock rises in proportion to amounts reinvested, the value of that stock in five years will rise from $1,000 to $1,250. The investor has a gain of $250 on his sale, and he gets to keep $187.50 after taxes.

Stock dividends paid by some companies that retain a major part of their earnings often are a means of drawing income currently—but at rates prevailing for capital gains.

To illustrate, take a taxpayer in the 50 per cent tax bracket. Say he buys 100 shares of XYZ Corporation at $50 a share, or $5,000 for the block, and holds the stock for more than six months.

If XYZ pays out $250 in cash dividends, this investor—after allowing for the dividend credit—will keep $135 after taxes.

If the company pays a stock dividend of five shares, which the investor sells for $50 a share, he will keep $247.02. Reason is that the cost of his five new shares will be figured, for tax purposes, at $238.10—or five times his original cost of $5,000 divided by his total number of 105 shares. So, for taxes, his gain is

only $11.90. Capital-gains tax on that comes to $2.98.

Sale of life insurance, endowment or annuity contracts also can get you a capital gain. If you turn your policy in for its cash value, you'll pay regular income taxes on the amount by which its cash value exceeds its cost to you. But your gain if you sell it to another person will be taxed at a top of 25 per cent. You may have to sell for less than the policy is worth. If you are in a high tax bracket, however, your tax saving may be greater than the loss on your sale.

Interest in a trust offers this same sort of opportunity. If you sell your life interest in a trust, you may well claim the lower rate that prevails for capital gains.

A patent right fits in here, too. If you take royalty income from a patent license on your invention or development, you'll pay the regular tax rates for income. If you sell the right to your patent, you will be able to claim the capital-gains rate—even though payments on the sale are stretched out over the period of the patent and even though they are dependent on the patent's profitability.

Loss assets—items that have dropped in value since you acquired them—also can be useful. Selling these means "realizing" losses that can be used to offset gains on other transactions. If, after canceling out your gains, you still have "unused" losses, you can use them to cancel out as much as $1,000 of ordinary income of that year.

Excess losses of this sort can be carried forward as much as five years. You may need to take a second look before going ahead to realize a loss. Assume, to illustrate, that you already have taken a long-term gain of $1,000 in the year and that you have assets that could be unloaded at a $1,000 loss. You may want to take the loss now, and thus offset your $1,000 gain.

Keep in mind, however, that your $1,000 gain is a long-term one that would be subject to only half the usual income tax—and to a maximum tax of 25 per cent. Suppose you postpone the sale until after the end of the year. Then you can take the loss in the following year and perhaps use it to wipe out $1,000 of regular income—income that would be subject to the regular rates. If you are in the upper tax brackets this means paying a tax of $250 in order to avoid a tax of, say, $350 or $500 or even $910.

Switching securities is a popular way of taking tax losses without losing your "investment position." In taking a loss, you can't buy the same stock back within 30 days. After selling loss stock in X Corporation, however, you can buy immediately into the stock of Y Corporation—that is, one similarly situated.

If it's bonds in which you are taking a loss, it is necessary only to switch from one debt issue of the company—or Government unit—to another of the same borrower.

In selling at a gain, you do not need to worry about this rule. You can sell at a gain—say, in order to make use of losses you already have sustained—and then buy back immediately into the same company. Later, when you sell again, your new, higher cost figure will result in a smaller gain—or a larger loss deduction.

Married couples might note this point: If both husband and wife have net losses on capital transactions, they each may be able to cancel out $1,000 of ordinary income, provided each has ordinary income and they file separate returns.

Short sales can be used to defer a gain until after year end without risk.

Say you have a long-term gain that you could take in stock X. You want to wait till after year end, taking the gain in the following year, but you are afraid the market is going down.

What you can do is to hold your "long" position and sell an equal number of shares short—that is, for later delivery. After year end, close the short sale by delivering the long stock. No matter what happens to the market in the interim, you will realize the same long-term gain that you would have had by selling before year end.

Your home, by the way, is subject to special rules. If you sell your home at a profit, then buy a new one and occupy it within a year, your gain is taxable only to the extent that the sale price of your old house exceeds the purchase price of your new one. If you put all of your sale proceeds into the new house, there's no tax.

Business property may offer a real opportunity. It takes a special rule if it's property held for more than six months. If the total gains on sale of such property exceed total losses, the excess gain is taxed as a long-term capital gain.

However, note this: If losses of this sort exceed gains, the net loss is an ordinary loss and is fully deductible from other ordinary income.

So you take gains in one year and pay a top tax of 25 per cent on them. And you take losses of this sort in another year and cancel out income that would be subject to your regular rates.

Or you take losses in a year when other income is large and gains in a year when other income is small.

Farmers, too, get to use this rule.

Corporations which are family owned may find it easier now to take out their earnings as capital gains, rather than as dividends subject to regular income taxes. Idea is to retain earnings, with a resulting

ONE WAY TO INCREASE TAX DEDUCTIONS

EXAMPLE

A man on a $15,000 salary has found in years past that his tax deductions, if itemized, totaled only about $900 a year. So he has made a practice of using the "standard deduction" of $1,000. This year, he did some planning ahead, came up with a way to get more deductions.

THE PLAN

"Bunch" deductions in alternate years.

IN 1955

This taxpayer not only pays his 1955 pledge to the Community Chest, but also prepays his 1956 contribution. He does the same thing on other contributions, on local property taxes, even prepays some interest due in 1956.

RESULT: Instead of $1,000, this taxpayer gets $1,500 in deductions on 1955 tax.

IN 1956

By "bunching," this taxpayer already will have used up many of his deductions. But he still will be entitled to the "standard deduction" of $1,000.

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[continued]

WAYS TO SAVE ON YOUR TAXES

rise in the value of the corporation's stock. Sale of the stock later results in a capital gain.

There still is a stiff penalty for "unreasonably" accumulating earnings in the firm. But the new law gives the Internal Revenue Commissioner the burden of proving the accumulation is "unreasonable," and that it is done to evade taxes on dividends.

Canadian investment trust is a new gimmick that may interest you. Operating under a special Canadian law, a Canadian investment company owned outside Canada invests in Canadian shares, reinvests all the dividends it receives. As its assets rise, the value of its own shares can rise, too. Sale of those shares, after being held more than six months, brings a long-term gain. And the trust's own earnings bear a low Canadian tax.

Holding assets until death may permit complete avoidance of taxes on a rise in value. Say you do this and pass such assets on, for example, to a son. When he sells the property later, his cost basis for figuring a gain or loss will be the "fair market value" that is used for estate tax purposes—that is, market value at your death or one year later. Yet he will pay no tax on the rise in value that occurred while you held the property.

A rule to remember in order to get the capital-gains rate is that you must be dealing in a "capital asset." That includes stocks, bonds, farm land, an automobile or boat. It does not include inventory, your stock in trade, or any property held for sale to customers; depreciable property and real property used in a trade or business; a literary, musical or artistic work created by the taxpayer, or copyrights to such works; or short-term discount obligations issued by a government.

Also, the property must actually be sold or exchanged.

This warning may save you from some disappointments: Gains on the sale of capital assets always are of the taxable sort. But some losses may be disallowed.

For example: You get no deduction for losses on the sale of property unless it is property acquired for a business purpose or as an investment. Your own home offers an illustration of that point.

Tips on Deductions

It's not enough to have a list of all the deductible expenses you have paid when April 15 rolls around. You need to plan expenditures if you want to make the most of your deductions.

Timing of outlays, for one thing, can be highly important.

If, for example, you enjoy a year of good income, you will want before the end of that year to pay off your obligations in order to crowd deductions into the good year.

Small corporations, with incomes fluctuating around $25,000, can use this device to smooth their incomes out at the $25,000 level and, thus, avoid the tax rate of 52 per cent that applies above this level. Taxes on two years of income at $25,000, to illustrate, will be $15,000.

—United Press

PENSION CHECK

To take advantage of "retirement income credit," careful planning years in advance may be needed by the individual taxpayer

But taxes on one year of income at $20,000 and another year at $30,000 will be $16,100—or $1,100 more.

Timing of medical outlays can be particularly helpful, because you can deduct only those medical expenses that are in excess of 3 per cent of your income. A taxpayer who has $10,000 of taxable income, for example, may have paid out $300 for doctors and medicine in a year, and then incurred a $200 medical bill. If he pays the bill before year end, he has a $200 deduction. If he waits till after year end, and has only small medical bills the following year, he loses the deduction entirely.

Whether to spend at all is a question that should be affected by your knowledge of deductions. You may, for example, hesitate to pay the price of an investment-counseling service, or a tax accountant's services. If you know that the deductibility of these outlays will reduce their cost by at least a fifth, the service may seem worth the price.

Bad debts offer opportunities that small businessmen often overlook. In the year-end rush, it's hard to find time to go over accounts. Yet a survey of the books is likely to show many accounts that have gone sour. They can be written off—or down—and deductions taken.

Many companies fail to take advantage of abandonment losses when the usefulness of business property suddenly ends and the property is discarded—for example, when a machine is made obsolete by a new model. Difference between the machine's depreciated value and its salvage is deductible. To avoid argument with Internal Revenue, sell the machine for junk.

Also, if your closing inventory for the year reveals merchandise that is obsolete, damaged or shopworn, write it down to its reduced value and, thus, reduce your figure on taxable profit.

Depreciation deductions now can be bigger, with important cash savings, but you'll need to give the matter some study. The new methods of depreciation offered in the 1954 tax changes may greatly increase the amount of earnings that you can use for expansion. If you haven't checked the "declining balance" method or the "sum of the years' digits" method, you'd better do it soon.

Entertainment expenses offer many business and professional people a chance to enjoy themselves at low cost. If your club membership, parties and similar things really are ordinary and necessary activities for your business, and you can show a direct and important connection, don't hesitate to make such outlays and deduct the cost. The mere fact that you get pleasure out of it will not rule out the entire deduction.

Charitable donations offer some ways to achieve cash savings. One is the practice of donating property that has risen in value since you acquired it, instead of giving cash. If you sell the property and donate cash, you will have to treat the profit in the sales as a capital gain for tax purposes. If you donate the property itself, you get to take the same deduction—the market value of the property—but you avoid the capital-gains tax.

This angle can help at all income levels. And, for a taxpayer with really high income, it actually can be more profitable to donate property to charity than to sell the property and pocket the after-tax profits.

Don't make the mistake of donating property that has dropped in value, however. You will not be able to deduct the loss involved in that decline in value. Sell the property, take the loss deduction, then donate the cash.

Aid for Farmers

Farmers can find many tax-relief laws put on the books for their aid.

A farm family, for example, can save taxes by producing as much of its own food and fuel as possible. Value of food and fuel produced and consumed on the farm is not counted as taxable income.

Capital-gains rules are especially kind to farmers. In addition to most rules applying generally, there are some special ones.

Income on livestock, for example, is eligible for treatment as a capital gain—instead of being regarded as ordinary income—if the stock has been held for breeding, draft or dairy purposes for at least 12 months.

There are also generous rules on capital gains which apply to profits on the sale of timber, evergreen trees and the like.

Farmers who contemplate the sale of a tract of cleared land might consider raising a crop on the land first. If they sell the land with the unharvested crop still on it the gain from the crop will be taxed as a capital gain.

Depreciation rules, too, favor farmers. A farmhouse, for example, may get the farmer some depreciation deductions if, as in the case of many farmhouses, part of it is used for farm business.

Another tip: Farmers who have use for more facilities to store grain should try to build these before the end of 1956. If they do, they will be permitted to write the cost off in deductions spread out over only five years.

Costs of soil and water conservation, at the same time, can be deducted currently—within certain limits.

This means farmers who are alert can improve their property at reduced cost. If you are enjoying a year of good income, and expect a high tax, make some of these bargain-basement outlays late in the year.

Estate Taxes

Some of the biggest tax savings of all can be had by planning the disposition of your assets so as to avoid estate taxes.

The federal estate tax is one paid on your assets, after allowance for certain deductible expenses—debts, cost of administering the estate, burial, charitable donations.

You can leave your wife half of what is left, tax-free. This marital deduction is the big rule to note.

In addition, you get a specific exemption of $60,000.

The remainder, if any, is taxed at steeply graduated rates running up as high as 77 per cent.

Note that a married man, making full use of the marital deduction, can leave an estate of $120,000—plus amounts for deductions—entirely tax-free. For a single man, the figure is $60,000.

Now, take a married man who plans to leave an estate of $150,000—after allowing for deductions. He wants his children to get his wealth eventually. But he wants his wife to be taken care of while she lives.

First plan that occurs to him is to leave his entire estate to his wife and let her pass it on to the children. He'll be making maximum use of the marital deduction that way. Still, $15,000 of his estate will be taxed at his death. And the entire estate—minus a $60,000 exemption—may be taxed at his wife's death, depending on when she dies. Total tax: $18,264.

A FAMILY PARTNERSHIP MAY SAVE YOU MONEY

A hardware proprietor earns $50,000 a year, on which he pays an income tax of $17,940.

— TO SAVE TAXES, he takes in his daughter and two sons as partners, giving each a one-fourth interest in the firm.

— INCOME IS SPLIT, thus, into four shares, each $12,500. The father pays a tax of $2,278. The children then pay taxes of $2,982 each. This makes a total tax for the family of $11,224.

TAX SAVING: $6,716 A YEAR.

BUT NOTE THIS:

There are tax rules that must be complied with if these savings are to be realized. Also, watch out for the gift tax, which might apply on the transfer of interest in the firm.

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Second plan is to leave the entire estate to his children, and let them take care of the mother while she lives. That way, none of the estate will be taxed at his wife's death. But he fails, on this plan, to make use of the marital deduction. Total tax: $17,500.

Third plan is to leave half the estate to his wife and a fourth to each of the two children, the wife's half to pass to them at her death. This way, he uses the marital deduction. Only $15,000 of the estate is taxed at his wife's death. Total tax: $2,100. Saving over first plan: $16,164.

You'll find examples of this same planning problem in the chart on page 31. It shows that on a $500,000 estate the third plan saves $58,154 over the first plan.

Gift rules. To plan further, you need to consider giving some of your holdings to your family now, while you're still alive. You will have to watch gift taxes, but they are lower than estate taxes, and you may avoid them entirely.

First, check some of the major rules on gift taxes. One is that the law permits you to give away as much as $3,000 apiece to any number of individuals each year—all tax-free. If your wife consents to the gift, you can give $6,000.

Also, you have a lifetime exemption. It means that, in addition to those annual exemptions, you can give away $30,000 tax-free during your life. If your wife joins you, you can give away $60,000.

Note that these rules permit you, if you use all your exemptions, to give your wife $60,000, plus $6,000 a year.

Gifts made within three years of your death, however, are likely to be disallowed for tax purposes and the amounts included in your taxable estate.

If you expect to have a substantial estate before you die, you might do well to begin disposing of it early.

To see the possibilities, take a taxpayer who expects to build up a $300,000 estate for his wife and two children. If he acts in time to give $6,000 a year to his wife, and similar amounts to each child, he can dispose of a sizable part of his estate.

Assume, however, that he waits too long to make use of the annual exemptions. To avoid estate taxes, he now gives half of his estate to his family—a fourth going to his wife and an eighth to each of his two children. Then, he specifies that at his death the other half of his estate is to be divided in the same way.

Gift taxes under this plan will come to $3,094. Estate tax at his death will be $880—for a total of $3,974.

Now see what the effect would be if this taxpayer just willed his estate to his family. Estate tax would come to $17,500. So the gifts save a total of $13,526.

On an estate of $500,000, the savings from these gifts would be $22,033.

Even larger savings than these, of course, will result if the taxpayer starts early and makes gifts each year in order to use his annual exemptions.

For more suggestions on ways to keep your tax payments as low as possible see the interview with Randolph Paul, nationally known authority on taxation, page 56.

Foreign Aid to Go On and On

Spending Planned for At Least Five More Years

U. S. has handed out 51.3 billion dollars to other countries since World War II. It spends more that way than it does supporting American farm prices.

In the last few years, foreign aid has been tapering off.

Now, however, U. S. taxpayers are being asked to increase their contributions to other nations. Foreign aid is becoming a part of the budget for the indefinite future.

Aid to nations abroad, after declining moderately for three years, will turn upward again in the year that begins next July 1, if President Eisenhower gets his way with Congress.

American taxpayers, under plans now laid, will continue indefinitely to provide more than 4 billion dollars each year to help other nations. New money to be asked of Congress, added to money already authorized but not yet spent, will finance an aid program of 4.4 billions a year up to 1960.

Foreign aid, in other words, is being built into the budget of the American Government as a long-lasting feature. The trend, on the basis of White House plans, is to be upward in the years ahead.

This program of aiding other people is among the largest items in the federal budget. It does not rank with the 35.5 billions a year spent on the U. S. armed services, but it is six times as much as the Federal Government is currently spending for highways. It comes to twice as much as this year's outlay for farm price supports.

The aid program for other nations would pay the operating expenses of all regular departments of the U. S. Government for almost three years. It comes close to the annual cost of veterans' aid and benefits. It is about four times the amount being spent on flood control, reclamation, public-power dams and development in the Tennessee Valley, all put together.

Growing opposition. The size of the foreign-aid program, when compared with other federal programs, explains the opposition that is rising in Congress toward the Administration's plans. Congress, in fact, has been trimming appropriations for foreign aid since 1953, and members had expressed the hope that the program could end soon. But some officials in the Administration are complaining that the program now proposed does not go nearly far enough.

The chart shows the policy that Congress has been following. The backlog of aid money was 9.6 billions for the year ended June 30, 1954. That sum was cut to 8.1 billions by June 30, and will slip to 6.6 billions for the year ending June 30, 1956. The amount of money available for foreign aid, in other words, has been diminishing gradually because Congress, in recent years, has been authorizing smaller amounts of new money.

Now Congress is being asked to reverse this trend. John Foster Dulles, Secretary of State, says that about 1.9 billion dollars will be sought in new money for economic aid, and that about 3 billions will be asked for military aid. That total of 4.9 billions in new money compares with 2.7 billions authorized for the year ending next July 30, and 2.8 billions authorized in the preceding year.

Congress is to be asked to build up the amount of money in the foreign-aid "kitty," so that the Administration can go on spending at the rate of 4.4 billion dollars a year. The decision reached by the Administration is that dollars must be kept flowing to other countries to build their military strength and to improve their economic condition. If Congress refused to build up the backlog, the flow of dollars would have to shrink.

Since the end of World War II, the U. S. Government has provided 51.3 billion dollars in aid to other countries. That includes Marshall Plan money for economic recovery and military aid since the Korean war. After fighting in Korea stopped, outlays were curtailed, but the country now is being told that they must begin to rise again.

For the story behind departure from the Government of a top figure in foreign-aid planning, see page 73.

The Upward Turn That Is Planned in Foreign Aid

	Year Before Last (fiscal year ended in June, 1954)	Last Year (fiscal year ended in June, 1955)	Current Year (fiscal year ending in June, 1956)	Proposed for Next Year (fiscal year ending in June, 1957)
SPENT, each year (actual expenditures)	$4.9 billion	$4.1 billion	$4.2 billion	$4.4 billion
REMAINING, at end of year (unexpended balances)	$9.6 billion	$8.1 billion	$6.6 billion	$7.1 billion

Source: Budget Bureau, International Cooperation Administration, statements to Congress by Administration leaders

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How to put on Pressure in the Clutch

FREQUENT trouble spots on oil rigs are the friction clutches in the power units. Service life can range as low as several weeks. Valuable drilling equipment can be tied up and down-time costs can amount to thousands of dollars.

Heart of the trouble on one type of clutch was its air tube. Inflation or deflation of this tube actuated the clutch by engaging or disengaging the opposing friction plates. But the oil and constant flexing resulted in tube failure. Finally, the G.T.M.—Goodyear Technical Man—was consulted.

The G.T.M., in cooperation with the rig manufacturer, changed the design, the rubber compound and the molding technique. The result was a tube which, on one particular rig where previous service averaged two to five months, has served 20 months and is still going strong. Laboratory tests of this new tube show an expected life of over ten years.

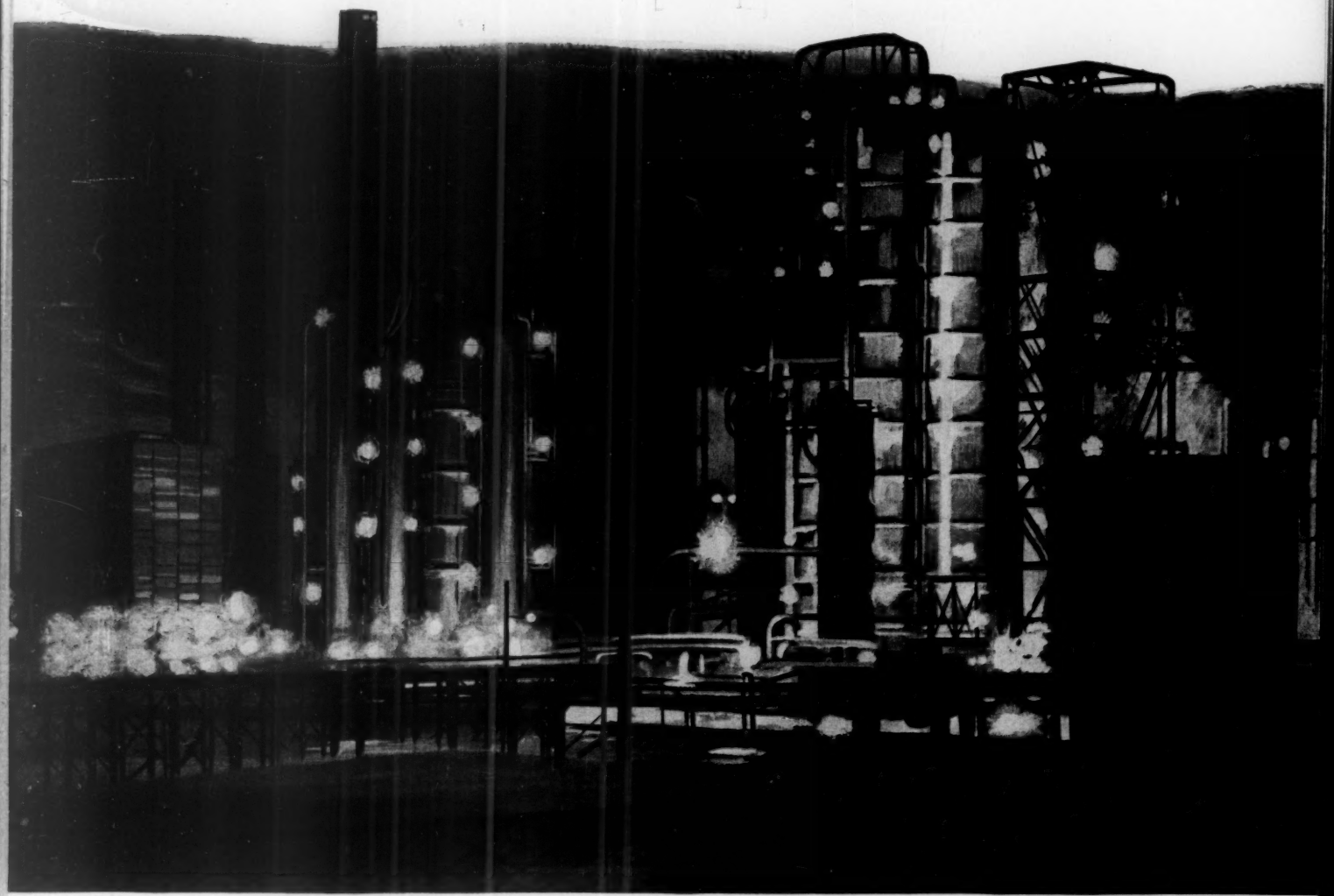
How can the G.T.M. improve your product? All molded goods problems find better solutions at Goodyear, Industrial Products Division, St. Marys, Ohio or Akron 16, Ohio.

GOODYEAR

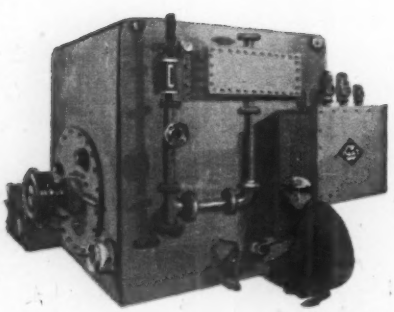
THE GREATEST NAME IN RUBBER

We think you'll like "THE GREATEST STORY EVER TOLD"—every Sunday—ABC Radio Network—THE GOODYEAR TELEVISION PLAYHOUSE—every other Sunday—NBC TV Network

This skyline means more



Allis-Chalmers machines help



Allis-Chalmers motors furnish power to drive pumps, blowers and other essential refinery equipment.

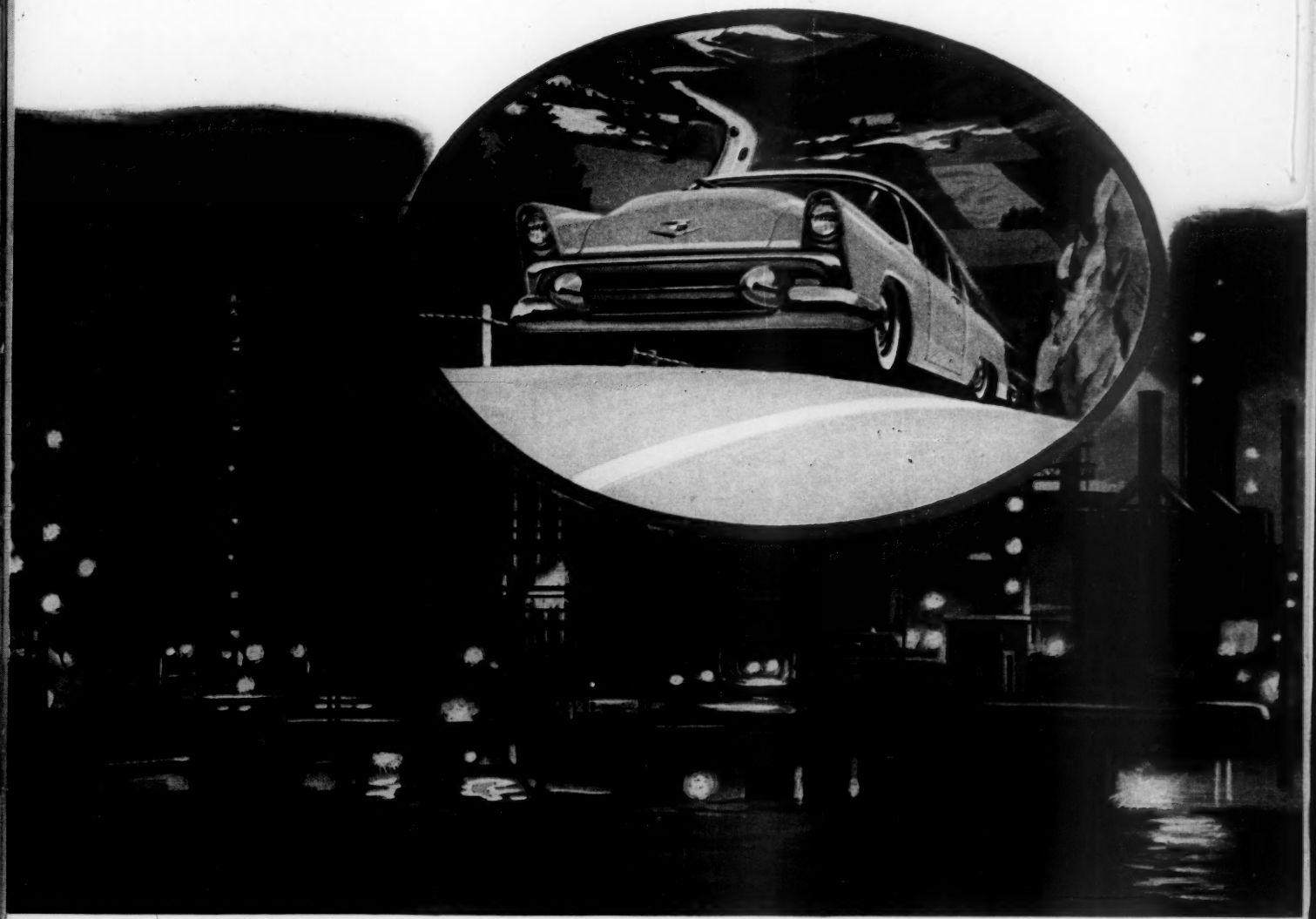
Allis-Chalmers axial, centrifugal and rotary compressors are used in the processes of converting crude oil into useful products.

TODAY, when you say "fill 'er up" at your favorite station, you get gasoline and motor oil that are better than ever before . . . new super-products that have come from continuous research and improvement in refining techniques by the petroleum industry.

Old cars can get a lift from these new fuels and lubricants, while newer cars, designed to take full advantage of them, are setting new standards of power and performance without sacrificing gasoline economy.

ALLIS-CH

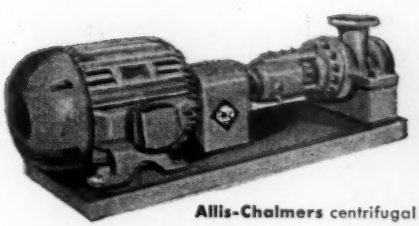
power for your car!



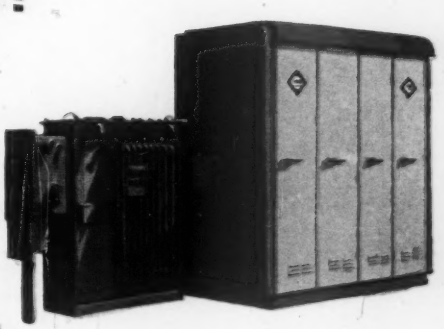
refiners produce better gasolines!

Allis-Chalmers machines, like the ones shown here, help the petroleum industry in the advanced techniques of refining modern gasoline and oil; they also help make many other useful petroleum products . . . heating oils, asphalt, waxes, paints and chemicals.

Allis-Chalmers also makes turbine-generators and transformers to supply electric power for all refinery operations. In *every* industry, Allis-Chalmers machinery and equipment help people produce more, have more, live better!



Allis-Chalmers centrifugal pumps move petroleum liquids through the many stages of refining and processing.



Allis-Chalmers load center substations control and distribute the electric power used by this great industry.

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Setting safer paths for little feet

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$28,000 AND AN IDEA BUILT THIS—

Ford Motor Company, a 2.5-Billion-Dollar Enterprise

A part of the heritage of Henry Ford will go on sale on January 18. Investors, given a chance to buy Ford Motor Company stock for the first time since 1919, find its founder's imprint still plain to see.

The company spends heavily for expansion, as in the elder Henry's time. Dividends are rather small. The family keeps control.

Yet there are changes that affect management and profits profoundly.

DETROIT

With $28,000 in capital back in 1903, Henry Ford started the Ford Motor Company. Today, 52 years later, that $28,000 has grown into a 2.5-billion-dollar enterprise, one of the largest industrial concerns in the nation.

Over the years of his domination, Henry Ford, Sr., had two persistent policies. One was to keep firm control in his hands, avoiding outside or bank interference at almost any cost. The second was to plow back earnings, limiting dividends to a fraction of earnings.

Now the general public, on January 18, is to be offered an opportunity to buy 10.2 million shares in the Ford Motor Company. This offering comes not from the Ford family but from the Ford Foundation, which today holds 88.4 per cent of Ford Company stock and wishes to diversify its investment.

The Ford family, after this sale, will continue to control the company. This control will be exercised through a large block of voting stock. The investing public, offered a chance to buy stock with voting rights, will not dominate the company. Neither will any banking group.

Some of those who remember Henry Ford wonder whether he would be shocked by what is now happening. The acceptance of outside investors, even if they do not have control, may mean pressure for larger dividends that Mr. Ford would not have relished.

The founder of the company would approve the dividend policy his heirs have followed in the years since his death. In 10 years, from 1946 to date, less than 500 million dollars has been paid out in dividends. Meanwhile, Ford management has plowed back into the business more than a billion.

The public is assured that a dividend of 60 cents a share will be paid in the first quarter of 1956. This would be equivalent to a dividend of $2.40 a share for a full year, against a background of earnings in 1955 that are likely to be more than $6 a share.

Financial strength. The Ford Company into which the public is being offered a chance to buy is in a very strong financial position. It has no debt to banks or bondholders and holds 65 million dollars in cash, plus other liquid assets, as shown in the chart on this page.

Industrial facilities, after depreciation, are valued at 1.1 billions.

In times past, however, there have been periods when the company was not so well situated or as firmly established.

Back in 1919, when the company had been in existence for 16 years, Henry Ford decided he wished to have complete control, free from the problems that arise when management power is shared with others. In that year, he and his son, Edsel, paid more than 105 million dollars to buy out the other stockholders.

Since then, until now, no outsiders have been permitted to buy any Ford stock.

Soon after other stockholders were bought out, a crisis developed that threatened a different type of outside interference. When the depression hit in 1921, the Ford Company needed cash and tried to borrow from banks. Bankers wanted a voice in running the company. Mr. Ford balked and escaped this dependence only through the help of his dealers.

Borrowing was avoided from then on, through setting aside a large part of the profit to finance expansion and provide a cushion for emergencies.

Unavoidable problem. The prospect of death posed a threat to the family control that the aging Mr. Ford could not escape entirely. Without some special provision in his estate, the federal and State taxes would be so

THE FORD SUCCESS STORY

What Ford Motor Company had when it started (June 16, 1903)	**$28,000**
What Ford Motor Company has now*	**$2,483,010,550**
Cash	$64,686,174
Securities, including Government bonds	$542,232,312
Inventories	$476,439,540
Investments in subsidiaries and foreign branches	$77,494,181
Plants, equipment, other property, after depreciation	$1,144,191,895
Other assets (including bills owed to the company)	$177,966,448
What Ford Motor Company owes to employes, suppliers, and government agencies	
Bills payable	$421,098,914
Salaries, wages, vacation pay	$54,201,341
Social Security, State and local taxes	$24,579,286
Other current liabilities	$89,280,100
Bonuses promised to officers and directors	$8,345,000
Reserves for anticipated liabilities	$45,964,649
What Ford stockholders own free of debt	**$1,839,541,260**

*As of Sept. 30, 1955

Source: Ford Motor Company

What Ford Takes in and Pays Out

	Nine Months Ended Sept. 30 1954	1955
Ford Motor Company took in this much	$3,210,600,000	$4,069,900,000
Expenses took this much	2,785,300,000	3,380,500,000
This much was left before taxes	425,300,000	689,400,000
Income taxes took this much	229,700,000	377,200,000
This much was left after taxes	195,600,000	312,200,000
Equal to this much per share of stock	$3.70	$5.85
This much was paid out in dividends	20,700,000	78,600,000
Equal to this much per share of stock	39 cents	$1.47
This much was kept by the company	174,900,000	233,600,000

NOTE: Ford directors have voted to pay a dividend of 60 cents in the first quarter of 1956. If continued, this would mean $2.40 per year.

Ford's Top Officers And What They Are Paid

	Salary, Bonus Paid in 1955	Bonus Payable in Jan., 1956	To Be Paid After Death or Severance*
Ernest R. Breech, chairman of the board	$321,000	$103,500	$925,000
Henry Ford II, president	321,000	103,500	925,000
Lewis D. Crusoe, executive vice president	270,000		722,500
Delmar S. Harder, executive vice president	270,000	67,500	750,000
John S. Bugas, vice president	183,750		475,000
John R. Davis, vice president	152,500		427,500
Irving A. Duffy, vice president	190,000		425,000
Benson Ford, vice president	190,000		480,000
William C. Ford, vice president	97,500		142,500
William T. Gossett, vice president	230,000	55,000	625,000
Theodore O. Yntema, vice president	188,750		452,500

*In addition to retirement benefits and stock options

Source: Ford Motor Company

heavy the family might have to sell stock or borrow.

The donation in Mr. Ford's will of a large portion of Ford stock provided a way to reduce the estate tax. Initially, the Foundation also provided a means for keeping all control in the Ford family, while giving up a large part of the ownership of the company.

The Foundation's stock was made nonvoting; it could not be used by the Foundation to influence company policy.

Eventually, however, the Foundation decided that it should not have all its investment in one security. It sought a way to sell some stock and persuaded the family to give votes to people who will buy in January.

At that point, the public will take over 20.3 per cent of the stock and obtain the right to cast 60 per cent of the votes in stockholder meetings. The family will hold 12.1 per cent of the stock and cast 40 per cent of the votes. The Foundation will retain 67.6 per cent of the stock and have no vote.

The family's 40 per cent will be enough to sway the company. Any outside group would find it almost impossible to muster enough votes, from the widely scattered public stockholders, to take control.

Thus, Henry Ford's wish to prolong his family's interest is being realized to a large extent, in spite of the new arrangement.

New management. The way the company is organized today is quite different from the way its founder liked. Until 1945, real power always lay with Henry Ford. Sometimes it was exercised through his son, sometimes through a plant protégé.

With the rise of Henry Ford II, a grandson, to the presidency in 1945, things changed. Edsel Ford had died in 1943. "Young Henry," who is now 38, brought in a team of experienced men. They began to function as a management committee; the one-man show was over.

The position they faced was poor. In 1946, the company lost 8.1 millions.

Since then, losses have been followed by large profits, shown in the chart on this page. The company's share of the U. S. auto market has grown. An expansion and modernization program costing more than 1.6 billions has been carried out.

Much of the credit has been given to three key men: Ernest R. Breech, chairman of the board of directors; Lewis D. Crusoe, in charge of cars and trucks, and Delmar S. Harder, supervising Ford's steel mill, glass factory and other parts and materials production.

The Ford name still is prominent. Henry Ford II, as president, shares the top role with Mr. Breech. His brother, Benson Ford, 36, heads the Mercury

division. Another brother, William C. Ford, 30, heads the Lincoln and Continental divisions.

Big pay. To Mr. Breech and other high-ranking executives who have resurrected the company's fortunes since 1946, Ford has been rewarding. Details of their pay are revealed through a financial statement.

The public finds that Henry II and Mr. Breech each received $321,000 in salary and bonuses in 1955. In addition, they are scheduled to receive $103,500 each in January, 1956, as a cleanup of bonuses earned in 1954.

Mr. Breech also has accumulated "contingent termination credits" of $925,000, and his contract provides for payments of $25,000 to $50,000 a year, if he should be dropped from the company before he reaches age 65. He is not quite 59.

As a further reward, Mr. Breech and other top officials have bought 286,200 shares at $21 a share and will be allowed to buy an additional 667,800 shares at the same price. The price to the public per share, in the coming sale, is expected to be more than three times that figure.

Profits which these officials can expect, if they stay with the company and buy stock at the low price, appear to be greater than the "termination" payments they would receive if they left.

Ford also is offering other salaried employes a chance to buy stock at a discount. For them, the stock will be priced at the current market value and the company will pay 50 per cent of the cost.

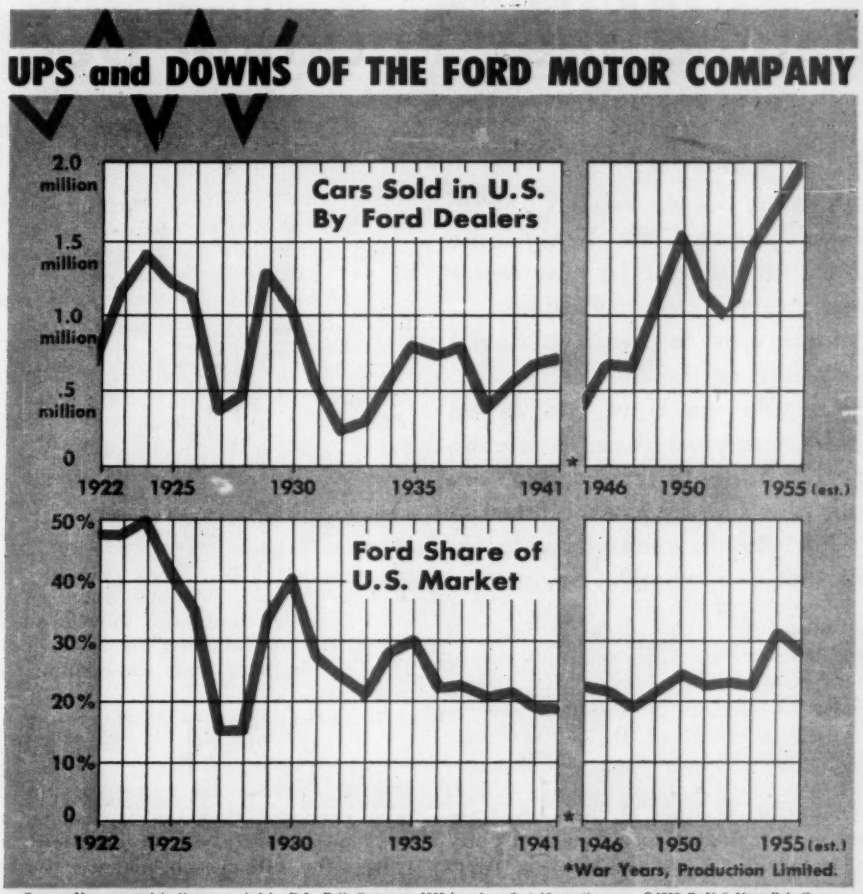
Cost of skillful management comes high. But the Ford family, looking back over the years of one-man control, can figure the company may be less likely to fall into costly slumps.

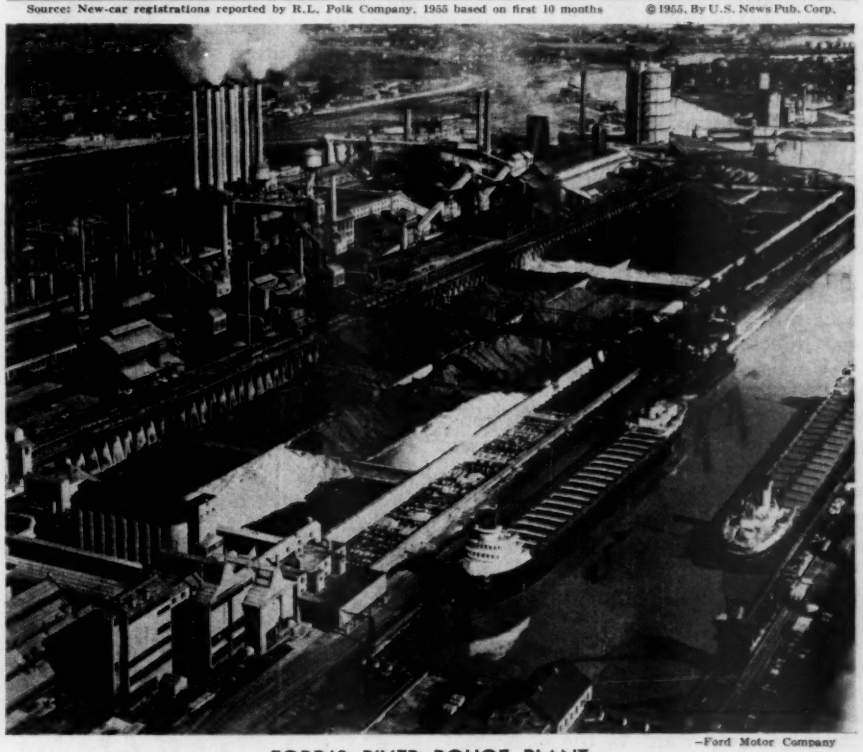
A rocky history. Ford did not achieve its present success by a smooth path. The chart on this page shows its ups and downs.

In 1927, the change-over from the Model T to the Model A held production low. The depression years saw the company trying a variety of innovations—the V-8 Ford, the Mercury, the Lincoln Continental—without making money. For the full period 1931 to 1941, losses exceeded earnings.

Thus, the Ford Motor Company, when its stock goes on sale to the public, will bear the stamp of two men. From Henry Ford, Sr., it has belief in vigorous expansion, conservative dividends and family control. From Henry Ford II it has up-to-date management.

With this combination, the public is wondering if the company can do even better in the years ahead. Brokers say demand for the stock is strong. This is a sign that investors expect good profits and good dividends.





–Ford Motor Company

FORD'S RIVER ROUGE PLANT

For 52 years, a policy of plowing profits back into the business

Behind the "Package Deal" in U.N.

A Story of Intrigue and Secret Trades

Strange deals and a lot of fancy footwork lie behind the vote that brought 16 new members into the United Nations.

Idea was to avoid a Soviet veto. But, as the dust settles . . .

Outside the U. N. are Japan and Communist Asia. Inside the U. N., suddenly respectable, are four new Communist members.

And Russia keeps its veto for another deal another day.

Behind the deal that brought 16 countries into the United Nations there is an inside story of strange diplomatic bargaining, of pressures involving the prestige of the U. S. Presidency, of schemes on a global scale.

The locale of these dealings ranges from secret meetings of the U. S. Cabinet in Washington to a luncheon party in the villa of a Communist bigwig in the Soviet Crimea.

A look behind the scenes shows that there were—and are—sharp divisions on United Nations policy, not only within the United Nations and among the Western Allies, but also within the U. S. Government.

Here, gathered from those who took part, is the inside story of how 16 countries were brought into the United Nations, of how it came about that a major industrial nation, Japan, was kept outside—denied entrance, in company with a backward and barren Communist province, Outer Mongolia.

You must go back to Yalta, U. N. officials say, to seek out the origins of the secret maneuvers and deals which continue to this day over the question of membership in the United Nations.

At the Yalta Conference in 1945 and later that year at San Francisco, when the United Nations was organized, the Soviets got the U. S. to let the Ukraine and Belorussia into the United Nations. Both areas were then, and are now, ruled not as soveriegn states but as provinces of Soviet Russia.

Since that time, the Russians have used the issue of U. N. membership as a weapon of "cold war." In the U. N. Security Council, the veto has been used, in all, 79 times—76 times by the Soviets. Out of the 76 Soviet vetoes, 43 were used to keep out new members.

Right from the start, the Russians tried to get "package deals" on membership. They offered to let in countries such as Italy and Ireland in exchange for Albania or Outer Mongolia.

Finally, in 1947, the U. N. General Assembly asked the International Court of Justice if such deals were legal under the U. N. Charter. The Court ruled that they were not. But the Soviet kept using its veto, kept seeking a package deal.

It was Adlai E. Stevenson, later the Democratic candidate for President, who, as a delegate to the United Nations, said that U. S. would not use its veto to keep out the Soviet candidates then trying to get in. He also said that the U. S. would agree to drop the veto on membership questions.

Meanwhile, back in Washington, leaders on both sides of Congress sought a means of breaking through the Soviet veto. The late Senator Arthur H. Vandenberg proposed that the U. S. offer to abandon the veto on all questions involving the settlement of disputes and the admission of new members. But Russia refused to go along.

There seemed no way around the veto in a cold war. Then, at the "summit" conference of the top leaders of the U. S., Russia, Britain and France in Geneva last July, the atmosphere seemed to change. In private talks, at Geneva, the idea of a package deal rose again.

The Canadians, at this stage, moved into the role of "middlemen." They approached the State Department with suggestions for a deal involving all 18 nations which had applied for admission to the U. N., including the Soviet European satellites and Outer Mongolia.

At top-level talks in Washington, Secretary of State John Foster Dulles and others involved agreed that the U. S. would not use its veto against the Communist countries of Eastern Europe. But all concerned balked at Outer Mongolia.

There was a move within the State Department at one point to propose a "package" of 17 applicants, dropping Outer Mongolia. This proposal never got final approval. Idea was that the U. S. should not initiate any package deal.

Early last October, while the deal was still in negotiation, the Canadian Foreign Minister, Lester B. Pearson, visited Russia. He talked to top Soviet leaders. Communist Party boss Nikita S. Khrushchev entertained him at a luncheon party in his private villa in the Crimea, Russia's Riviera. When Mr. Pearson returned, he made it clear to U. S. officials that the package deal proposed by Canada would include Outer Mongolia.

Pressures, meanwhile, built up rapidly for acceptance of any kind of deal

(Continued on page 48)

—United Press

SECURITY COUNCIL DEBATE ON NEW MEMBERS

The question now: Is the door swinging open to more Soviet maneuvers?

WILL YOUR NEW HOME BE OBSOLETE ...EVEN BEFORE YOU MOVE IN?

Model of one of 12 most popular homes featured in Small Homes Guide, Fall 1955.

No home now being built can be up-to-date without today's new dimension in hot-weather comfort—the built-in "cool feel." Here are suggestions that can mean much to the value of your property.

Winter comfort alone is no longer enough. Emphasis now, as never before, is on *summer* comfort. New materials, new skills, even revised building standards make it a *must* in modern homes.

Important as it is today, "cool feel" will be indispensable in the era of low-cost air-conditioning just ahead. Sound, careful planning now can save you countless dollars later. For *built-in coolness* starts with the building plan itself.

There are many things to consider in achieving the "cool feel"—house placement, exposure, materials, heat-reflecting insulations, paint, windows and others. Needs vary by regions. Architects, builders, and materials makers such as Borg-Warner, all can help you.

"Cool feel" can be built into a new home at very little additional cost. Besides giving your family extra summer comfort right from the start, it will assure you a home designed to the future, right and ready for central air-conditioning at *any* time. Getting this vital advantage can be made easier and surer for you by the unique new Borg-Warner products described in the next column. Ask your builder about them; or send the coupon for more facts.

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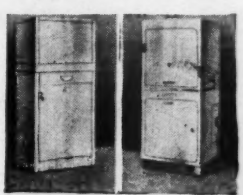

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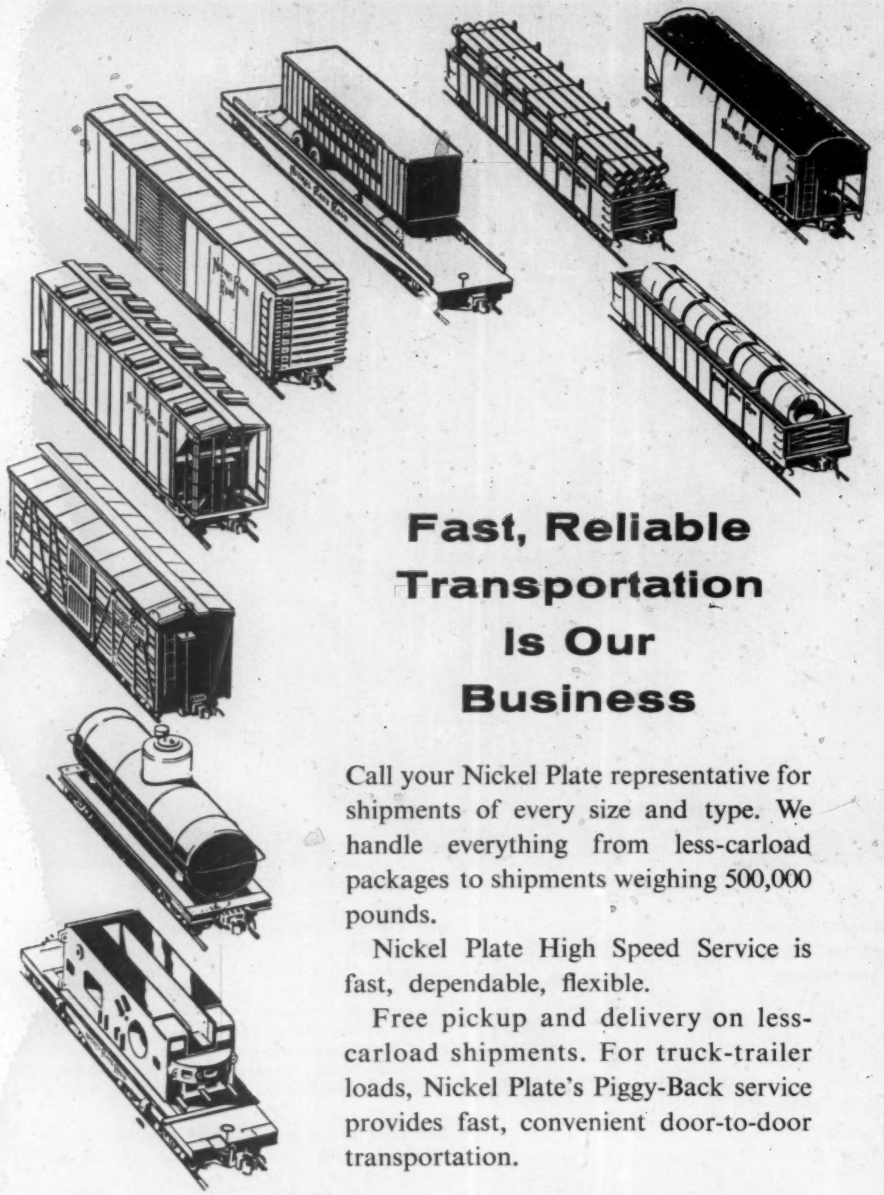

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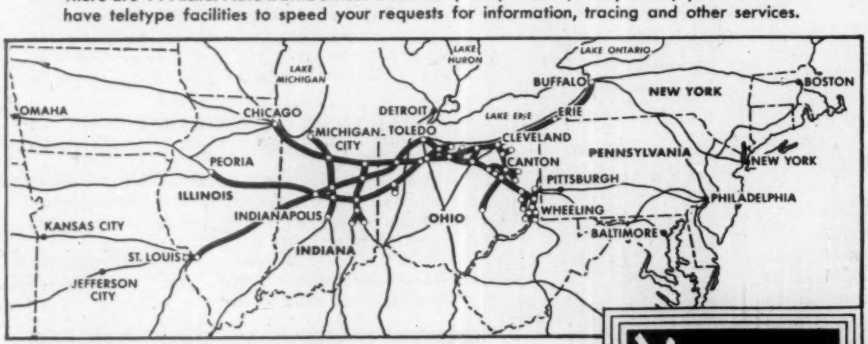

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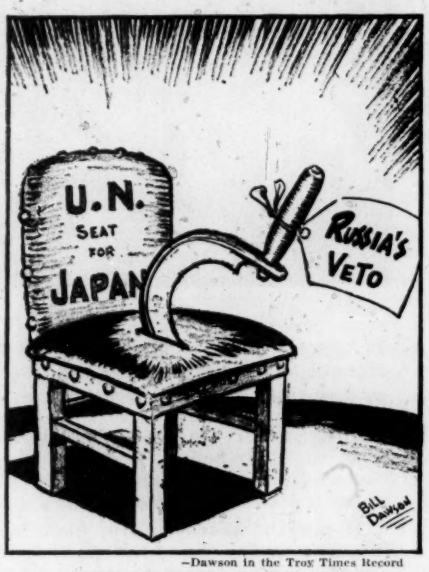
[continued] **BEHIND THE U. N. "PACKAGE DEAL"**

which would open the U. N. to new members. In Italy, for example, the desire to get into the United Nations became a hot political issue. Spain, too, wanted in.

Flitting around the edges of all the secret negotiations was a host of diplomats who wanted to see the deal go through. India's V. K. Krishna Menon worked hard to line up votes for the "package." Latin-American delegates were active on behalf of Spain.

In backroom talks at the United Nations, it soon became apparent that an overwhelming majority of U. N. members favored the deal. The one obvious stumbling block was Nationalist China, limited in territory to little more than the island



—Dawson in the Troy Times Record

"PRESENT FROM MOSCOW"
It can be fixed—for Russia's price

of Formosa, but still armed with China's veto in the U. N.

While Soviet delegates sat back and refused all suggestions that they abandon Outer Mongolia's application, U. S. delegates worked hard to find enough votes against the package deal, in order to make a Chinese Nationalist veto unnecessary.

When this effort failed the problem was tossed back to Washington. There Mr. Dulles took the issue into the Eisenhower Cabinet. The Cabinet decided that the U. S. should accept Outer Mongolia by abstaining from the vote on this application. They also agreed to try to persuade Chiang Kai-shek on Formosa not to veto Outer Mongolia.

U. S. aim, at this stage, was to spare Nationalist China from the certain anger of many U. N. members, including some

who had not recognized the Communist Government in Peiping. If Chiang's delegate alone upset the 18-member deal, U. S. experts felt, many U. N. members would join the Soviet move to give China's seat in the United Nations to the Communists.

All means of pressure, short of threat to withdraw U. S. military and economic aid from Formosa, were used to persuade Chiang Kai-shek not to use the veto. President Eisenhower himself wrote two personal letters to Chiang. But the Generalissimo was adamant.

When the vote came, the Chinese Nationalists vetoed Outer Mongolia. In rapid succession, the Soviet delegate vetoed 13 other applicants. The package deal had fallen through.

Feeling ran high, that night, against Nationalist China. In the Assembly there was talk of a private meeting of the 52 members favoring the deal, including many U. S. allies, such as Britain and France. This meeting was blocked by a quick U. S. protest. There was talk, too, of what could be done to get the Nationalist Chinese out of their U. N. seat.

Next day came an upset. Soviet Russia suddenly dropped its support for Outer Mongolia and agreed to accept every other applicant except Japan.

Into the United Nations, as a result, came 16 nations—among them the four Communist satellite countries of Albania, Bulgaria, Hungary and Rumania. The three last-named satellites still stand condemned by the U. N. Assembly for failure to fulfill their treaties and for disregard of human rights and freedoms.

Outside the United Nations are Japan, major industrial nation of the Far East, and the backward, barren, thinly-populated Communist area of Outer Mongolia —plus Communist China, which wants the U. N. seat still held by the Nationalists.

Russia's game in this last move involved many factors. Italian Communists wanted Soviet approval of Italy's U. N. membership. The Russians wanted to improve their bargaining position in talks with the Japanese, who have refused to sign a peace treaty with the Soviet until Japanese prisoners still in Russia are set free. Last, but not least, Soviet leaders are setting up a new trade for next year —a U. N. seat for Japan, provided Peiping's Communists get China's seat.

Now there is bitter argument at high levels of the United Nations, and in Washington, as to what all this means for the future. Some experts feel that the breaking of the log jam over U. N. membership was worth the price. Others insist that the deal can only lower the U. N.'s prestige, threaten U. S. leadership and open the door to more deals, Soviet style.

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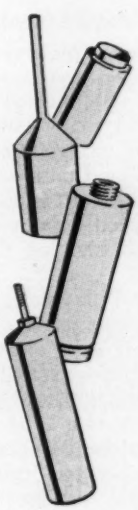

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ROVING RUSSIANS: SECRET WEAPON

Soviet Delegations Trade Propaganda for Know-How

Touring Russia and entertaining Russians has become fashionable. Soviet delegations are everywhere, even in the United States. And foreigners are flocking to the Soviet Union.

This international exchange of visitors has been encouraged as an aid to peace.

Now, however, some Western officials are beginning to wonder. This article tells why.

It is beginning to dawn on some Western nations that they are coming out on the short end of the deal in the exchange of "visiting delegations" with the Soviet Union.

Those nations see Soviet delegations, after visits abroad, go back to Russia loaded with information of great value to the Communists. They see Western inventions and industrial techniques being copied by the Soviets.

Then they see Western delegations returning from Russia with little except a novel experience to show for the trip.

When the score is added up, Russia is found to be gaining more than it gives. And the number of Soviet delegations traveling abroad is found to be steadily increasing.

Many Western officials, as a result, are becoming suspicious about what the Russians are up to. Official studies now are being made of the whole exchange program.

What the studies reveal, in the opinion of some officials, is this:

The Russians are using delegations as "cold war" weapons. They use them to gain information from the West and to spread Communist propaganda. Delegations, the way they are employed by the U.S.S.R., serve as a means of industrial spying and economic penetration.

Industrial targets. The scope of Soviet operations in this field is indicated by the chart on page 51. That chart is based on official reports of the U. S. Government. Those reports show that in 1954 Russia exchanged 1,046 delegations with 63 other nations. The Russians sent 363 groups abroad, and received 683 groups on sponsored visits to Russia.

There were youth delegations and cultural groups, sports teams and women's organizations, trade-union representatives and so-called "peace missions."

Most numerous of all, however, were delegations of a technical, scientific, professional or business nature—the type that can supply the information that Russia needs most. The Soviet Union exchanged 388 such delegations in 1954, and increased concentration on those subjects is being noted this year.

The majority of Soviet delegations, it is also noted, are sent to non-Communist countries, where the supply of advanced information is greatest. The chart shows where the delegations are going. Great Britain, for example, exchanged more visits with Russia than any other nation, and the other highly industrialized nations of Western Europe also stand high on the list.

Russia appears to regard the delegations as useful, for the number keeps growing. The 1954 total was almost double the number of visits exchanged in 1953. And the 1955 figure is turning out to be much larger than that for 1954. A big increase occurred after the Big Four Conference last summer, when the "spirit of Geneva" caused several nations to lower bars to East-West travel.

Now Russians are traveling everywhere —even to the United States. Russian builders come here to study construction techniques. Russian farmers tour the U. S. corn belt. Other Soviet delegations are going into European factories and steel mills, Scandinavian shipyards and Middle Eastern oil fields, attending scientific congresses all over the world.

Fair exchange? Western delegations, at the same time, are flooding into the Soviet Union at an increased rate. Even the U. S. is sending groups of visitors to Russia.

Everywhere they go, the Russians are seen taking pictures, scribbling in notebooks, asking questions and drawing diagrams of machinery—picking the brains of Western experts.

When Soviets visit the West, they go pretty much where they like, and see whatever they want to see. On the other hand, Westerners note, delegations to Russia get a different kind of treatment. What they get is a carefully guided tour, seeing only what the Russians want them to see. And they report finding almost nothing in Russia that is worth studying or bringing home.

Russia, it develops, has little to offer an advanced Western country.

Russia's housing delegation to the U. S. is cited as an example of how this trade of delegations works out. The Soviet builders gleaned useful information about advanced American techniques in home building. But Americans visiting Russia

—Lincoln (Neb.) Journal-Star

SOVIET FARMERS LEARN ABOUT U. S. MACHINERY
Are the Russians "picking the brains" of Western experts?

discover that country is far behind the U. S. in construction methods.

Samples to copy. The Soviet farmers operated in the same way. They went back from America with information and with seeds and with machinery that can be of great use to the food-short Soviet Union. But American farmers who visited Russia report seeing nothing that will help them.

This sort of unequal exchange is going on all around the world.

Occasionally, Soviet delegations buy something abroad, and take it back to Russia. But the quantities they buy are usually small. And businessmen in the West are learning that Soviet purchases are not repeated. What Soviets buy, it turns out, are often only "samples"—not to be used, but to be copied.

This is being recognized as an old technique of the Communists. Like the Japanese in former years, the Russians are known as copyists. They copied British jet engines, American aircraft and American cars and tractors. They stole the secrets of atomic energy. Even the Soviet steel mills were largely American built. And American engineers pioneered Russia's hydroelectric plants.

Now, with international contacts growing, it is being realized that the Russians are getting a chance to expand their exploitation of advanced nations.

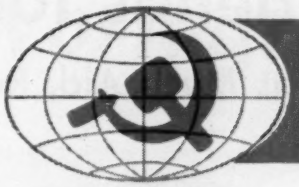
Politically as well as economically, the exchange of delegations, which was encouraged by Western nations, is beginning to boomerang against the West, in view of some Western strategists.

A propaganda victory. Russian visitors are being credited with propaganda successes in many countries. Schooled in the techniques of propaganda, they make the most of their opportunities to spread the Communist line. And their statements are given wide publicity in the countries they are trying to impress.

Western delegations to Russia, however, are not so interested in making propaganda, and they find no similar opportunity to serve as propaganda agents, even if they are so inclined. What Russian people read about visitors to their country is carefully controlled.

Many of these developments come as somewhat of a surprise to Western diplomats. It used to be generally considered beneficial for the West to develop contacts with the people of Soviet Russia. It was argued that exchanges of visits would promote international understanding and ease the world's tension. Businessmen nourished the hope that it would lead to new markets.

Now, however, some Western officials are beginning to wonder who is benefiting. The idea is growing that the West may have played into the hands of the Kremlin by trying to be sociable to the Communists.



HOW SOVIETS USE DELEGATIONS FOR PROPAGANDA AND SPYING

IN 1954:

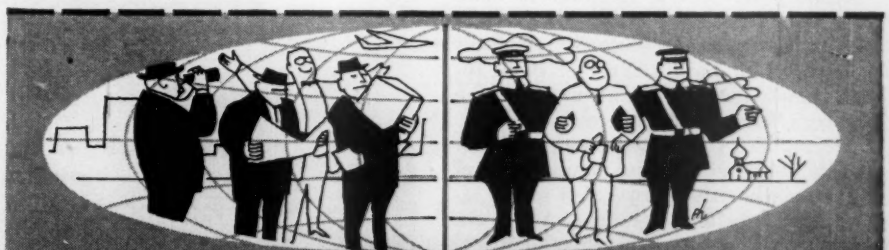
Russia sponsored visits, from other countries, by **683 delegations**

Russia sent on official visits to other countries **363 delegations**

Total exchange 1,046 delegations

More than half these exchanges were with non-Communist countries.

HERE ARE THE SOVIETS' CHIEF TARGETS:	Delegations to Russia	Delegations from Russia	Total Exchange
Great Britain	45	31	76
Finland	38	14	52
France	30	21	51
India	32	8	40
Sweden	20	11	31
Italy	14	17	31
Norway	15	6	21
Japan	11	2	13
Argentina	6	6	12
Indonesia	9	2	11



What a Soviet delegation gets in a Western country:

A free hand to look, learn, copy—and take home samples.

What a Western delegation gets in the Soviet Union:

A lot of propaganda, a guided tour—and nothing worth taking home.

Source of data: Official figures published in "Worldwide Communist Propaganda Activities," edited by F. Bowen Evans.

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Do Dollars Win Friends for U.S.?

With Fifth as Much Aid, Reds Are Gaining in India

A test of one theory behind foreign aid is available in India.

Theory: Money spent to bolster other countries comes back in the form of friendship and support for the U. S.

Now look at India after a half-billion dollars of U. S. aid.

The debate over whether money can be counted on to buy friends and allies for the U. S. is under way again.

Since World War II, U. S. has sent billions of dollars into the world as loans and gifts to aid friendly nations abroad. The size of the next program for foreign aid has just been under discussion inside the Eisenhower Administration. A big test will come in the new Congress.

In India you get a precise look at American spending in one country, and what that spending has produced. As the accompanying chart shows, since 1950 India has received more than half a billion dollars from the U. S.—five times as much as Russia has even offered.

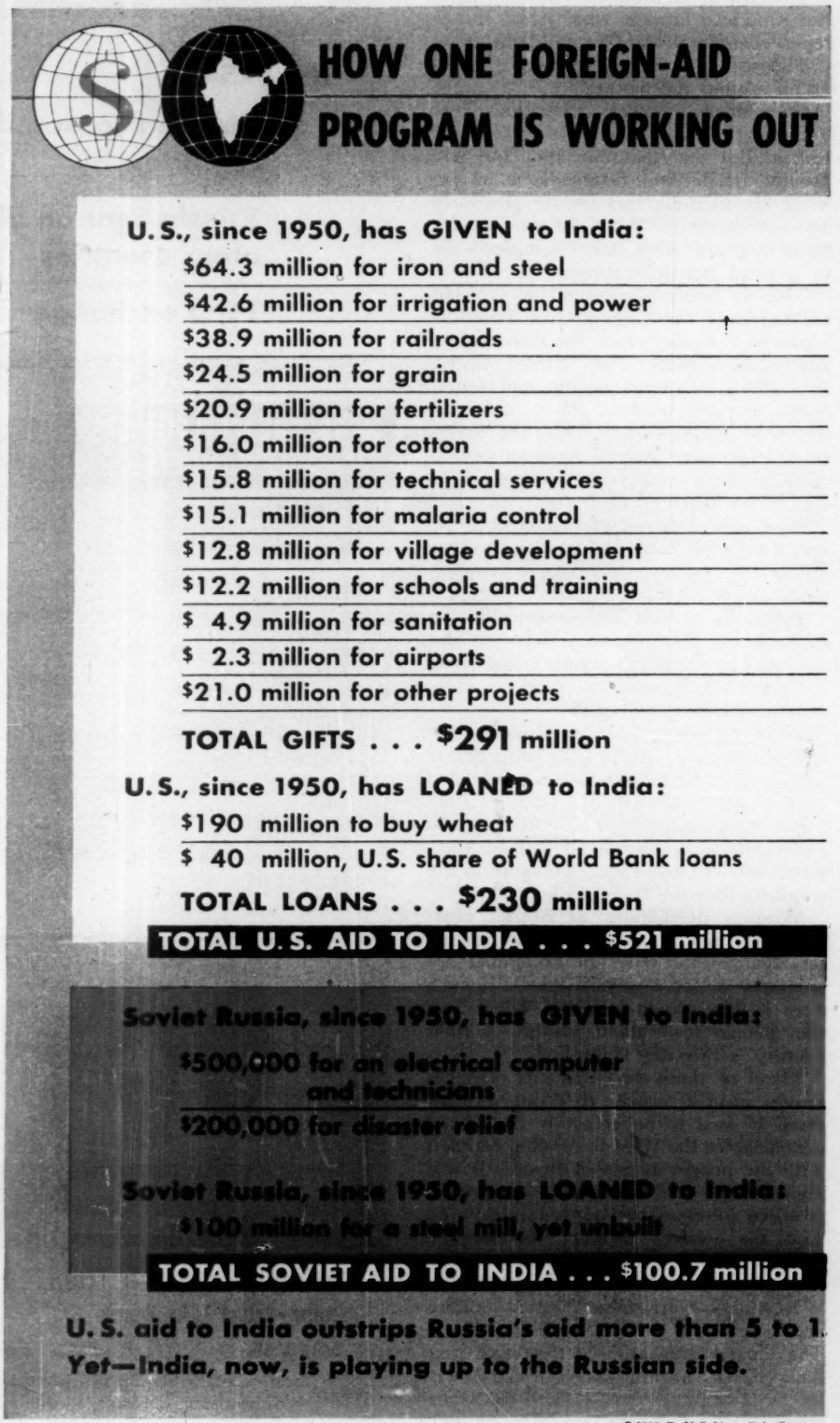
Here is India's record when it comes to issues dividing the U. S. and Russia:

Prime Minister Nehru wants Formosa turned over to Communist China. His roving ambassador, V. K. Krishna Menon, has been campaigning for years to get Red China into the United Nations. The Indian Government opposes practically all the U. S. defense measures designed to keep the Communists in check anywhere.

Inside India there is agitation for more trade with the Soviet world. Soviet technicians are working with Mr. Nehru's technicians on India's five-year plan. Indian newspapers praise Russia as the country's friend and benefactor.

Meanwhile, U. S. gets scant credit for its aid. Most Indians have never heard of it. Those who have heard of it either ignore it or take it for granted. Americans helping improve sanitation, directing school programs, and working on public health, farm improvement, transportation and other projects are criticized more often than not as "representatives of Western colonialism."

Now, after spending five times as much as the Russians even talk about, Americans in India find that U. S. prestige has slipped to a new low in that country and that the Soviet Union is rated tops.


HOW ONE FOREIGN-AID PROGRAM IS WORKING OUT
U. S., since 1950, has GIVEN to India:
$64.3 million for iron and steel
$42.6 million for irrigation and power
$38.9 million for railroads
$24.5 million for grain
$20.9 million for fertilizers
$16.0 million for cotton
$15.8 million for technical services
$15.1 million for malaria control
$12.8 million for village development
$12.2 million for schools and training
$ 4.9 million for sanitation
$ 2.3 million for airports
$21.0 million for other projects
TOTAL GIFTS . . . $291 million
U. S., since 1950, has LOANED to India:
$190 million to buy wheat
$ 40 million, U.S. share of World Bank loans
TOTAL LOANS . . . $230 million
TOTAL U. S. AID TO INDIA . . . $521 million
Soviet Russia, since 1950, has GIVEN to India:
$500,000 for an electrical computer and technicians
$200,000 for disaster relief
Soviet Russia, since 1950, has LOANED to India:
$100 million for a steel mill, yet unbuilt
TOTAL SOVIET AID TO INDIA . . . $100.7 million
U. S. aid to India outstrips Russia's aid more than 5 to 1.
Yet—India, now, is playing up to the Russian side.

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Worldgram®

FROM THE CAPITALS OF THE WORLD

NEW DELHI....LONDON....JERUSALEM....BUENOS AIRES....

>> One thing you can be reasonably sure about in 1956.....

U.S. will probably be kicked around more than usual overseas.

As a small sample of what's to come: Anti-U.S. mobs have taken to staging riots, noisy demonstrations against U.S. policies in India and the Middle East. Anti-U.S. talk has been making headlines in Japan and France, both U.S. allies.

Soviet Russia is getting the kind words. U.S. is getting the brickbats.

You might as well get braced for more brickbats as Soviet leaders step up their drive against U.S. in Asia and Middle East. Moscow calls it "competitive coexistence"--new words to an old tune, the one called "cold war."

>> To find out whether U.S. or Russia is winning India, Burma, Japan, the rest of Asia.....Here is the way it looks to an informed Asian, a career diplomat who should know how Asians feel toward both the West and the Soviet bloc:

"The West has lost its battle to get neutral Asians on its side.

"The neutrals have moved closer to Russia and Communist China.

"The American idea has been to keep Japan, India and Burma from becoming friendly with China and Russia. This policy hasn't worked.

"Japan is steadily improving relations with China through visits and trade. India is increasing its economic relations with Russia. Burma is very pleased with Russia's offer to buy its surplus rice, since U.S. wouldn't.

"India and Burma didn't have to climb over the Iron Curtain to get help from Russia. It was the Russians who came out from behind the Curtain.

"Soviet leaders stole a march on U.S. and Britain by their visit to Asia. They didn't make the Western mistake of underestimating the influence of Asian neutralists, or of belittling the Asian-Arab meeting at Bandung last spring.

"Maybe this Soviet attitude is temporary--we don't know--but we like it."

These are the views, you'll remember, of an Asian diplomat who is in favor of neutralism. As U.S. sees it, he puts surprising faith in Soviet and Chinese promises. But he gives you a point of view widespread in Asia, and growing.

>> Result is that it's much easier for Moscow to move ahead in South Asia.

The big push from the north is now visible to the naked eye.

Both Moscow and Peiping are in on the job. It used to be thought Moscow was staying out of South Asia, leaving it to Peiping. The Khrushchev travels make it clear that both Russians and Chinese are deeply involved, in this way:

Pakistan is under pressure from Afghanistan, its northern neighbor, egged on by Russia. India is under pressure from the north by both Russia and China, working through Communist Tibet, through Communist agents in Nepal and Assam. Burma is being talked into buying arms from its northern neighbor, Communist

(over)

China. Thailand, Laos are wrestling with infiltration from China and Vietnam.

Soviet pincers are thus in operation on a grand scale clear across Asia.

>> Question in Western capitals is how best to compete with Russia in Asia.

Outbidding Soviets with aid isn't viewed with much favor in either London or Washington. Instead, suggests "The Economist" of London:

"It is nonsense...to think of 'keeping Russian aid out of Asia.' On the contrary, the appropriate slogan for the West to adopt here might be 'come on in --the water's not too warm.'...It is indeed high time that Russia...took on a fair share...--and was publicly held responsible for doing so."

>> Back of the attack on the American flag in Jordan, in the Middle East.....

A handful of Communists is blamed by Jordan officials for organizing the anti-U.S. mobs. The Communists had material such as this to work with:

Arabs, generally, criticize U.S. as pro-Israel, anti-Arab. This has made it easy for Communists to label the Baghdad pact, which U.S. favors, as anti-Arab and pro-Israel. This pact, set up to defend Middle East against Soviet attack, is denounced by Communists as a U.S. trap to split Arabs, to protect Israel.

So, mob action was used to scare Jordan's Government away from the pact.

As a result: Jordan's pro-Western Premier has resigned, and Jordan is not likely now to join Turkey, Iran, Pakistan, Iraq, Britain in the Baghdad pact.

This leaves Iraq the only Arab state in the new line-up. Now there's doubt how long Iraq will stand pat against pressure from its Arab neighbors.

It looks like another Soviet victory in the vital Middle East.

>> In London and Washington this upset in Jordan comes as a shock. Jordan has been regarded as a reliable friend of the West. Jordan's Arab Legion, rated the finest in the Arab world, is subsidized by Britain, officered by Britons. Jordan's King was educated in England. Most top Jordanians are pro-British.

Ties with Britain have not prevented a few Communists from successfully exploiting the Jordan-Israel feud, at the West's expense.

Fact that Communists are outlawed in Jordan hasn't stopped them. They simply operate under another name, without serious interference.

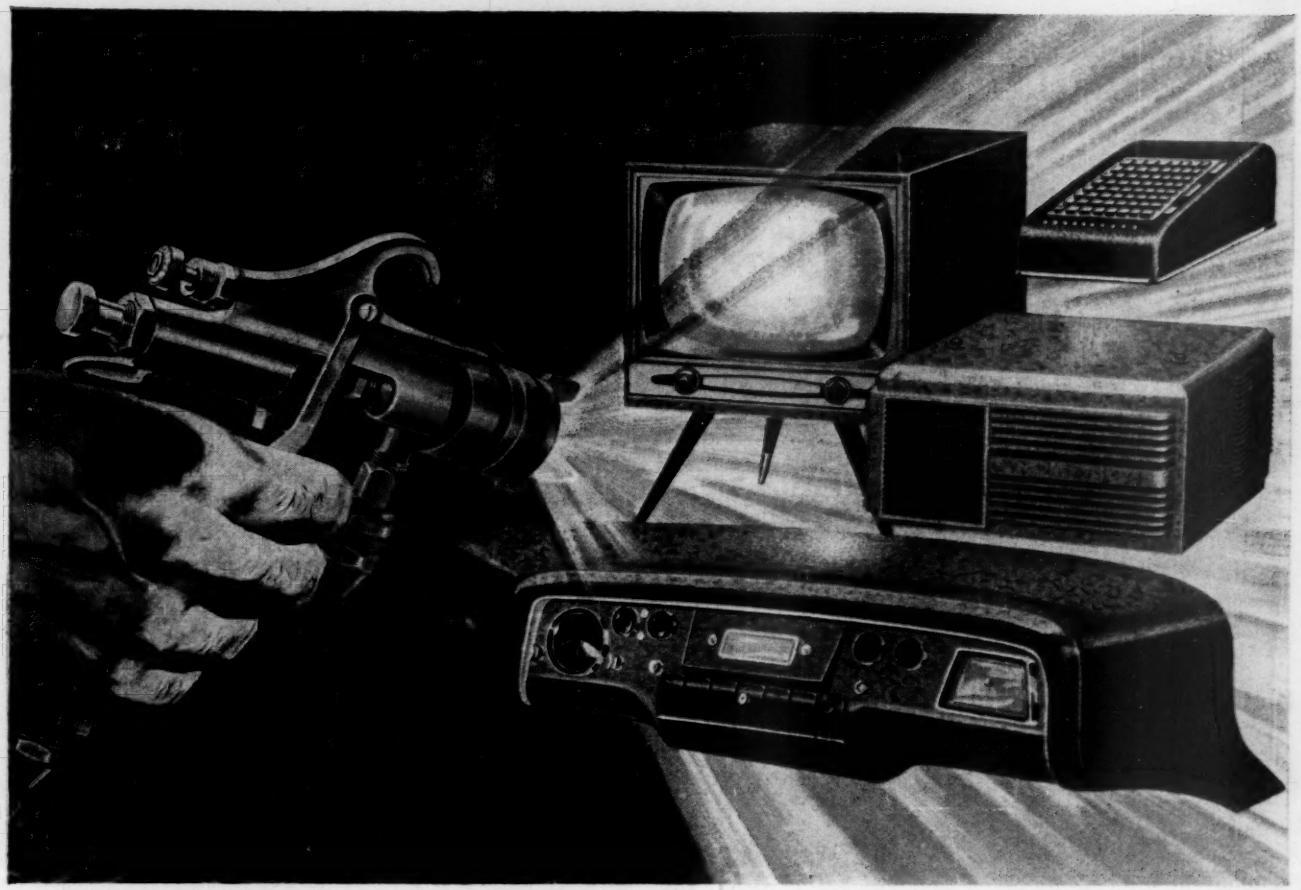
To give you an example: The biggest newspaper in Arab Jerusalem employs a Communist writer who attacks the West in his column every day. The editor, a non-Communist, justifies this as "good for circulation," adding: "If we carried out a pro-Western line, we'd get a bomb through our window."

>> The way it looks in Buenos Aires, it's to take a year before Argentina's voters can have a voice in their Government. This is why:

Official investigations--42 of them--are uncovering such a heritage of corruption from Perón's regime that the house cleaning will take months. Voting lists will have to be cleansed of aliens and dead men the Perón machine found handy. Fake identifications have to be tracked down. Reregistration of all voters in Argentina is required. This job alone will take about a year.

In addition.....Political parties need time to build up, get rid of spies planted in their ranks by Perón. Argentine politics has to start afresh.

Communists are a growing problem. Communist Party is gaining 300 or so members a day from the Peronista Party, now abolished. Outlawing Communist Party, due soon, won't settle much. Communist fronts already are in operation.



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But Glid-Hide can supplement leather. For example, in car interiors Glid-Hide gives still more beauty by creating the appearance of leather on instrument panels, seat kick-panels and other places where genuine leather may be impractical or too costly to apply.

There are many possibilities for Glid-Hide. It opens a whole new field of design and style possibilities for such things as interior trim for vehicles, TV and radio cabinets, room air conditioners, business machines. And Glid-Hide suggests new cost savings because its texture hides surface flaws.

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Interview with RANDOLPH PAUL
Leading Tax Adviser

HOW TO AVOID MORE TAXES THAN YOU SHOULD PAY

Taxes today take a big slice out of almost everyone's income, and taxpaying time is just ahead.

Are you sure that you are not paying more taxes than you need to pay? Are you using all the ways to avoid taxes that the law allows?

Randolph E. Paul, one of the nation's leading authorities on taxation, gives some practical suggestions on tax problems in the following interview with the Board of Editors of *U.S. News & World Report*.

Mr. Paul cites many deductions that you may not be taking. He tells how people can build an estate or accumulate income without paying extremely high rates. He tells when it is advisable to make gifts.

The final advice is to study the tax system yourself. You may save money.

Q What is the average man going to do, Mr. Paul, about finding out what he should or shouldn't pay in taxes? The big company or the wealthy individual gets a lawyer, but what does the average man do?

A He has a hard time. He reads popular, supposedly simplified explanations, and he gets in a long line in the nearest Internal Revenue Service building and talks to those people who are designated to help him—if he wants to talk to them he has to stand in line a long time.

He has really, though, very little way of helping himself, because his case may be just as complicated as the big-type case but he can't afford—his tax often isn't big enough to justify paying an attorney or accountant. So he's relatively helpless, and the result is that he often reports too much—he doesn't get all the exclusions he should, he doesn't take all the deductions to which he's entitled, he gets confused as to his credits—

Q Do you think a lot of money is being paid in that shouldn't be paid into the Treasury?

A I couldn't say that, because some taxpayers take the benefit of doubts—there are certain classes of taxpayers that probably don't pay as much as they should. How it would average out I wouldn't know.

Q A conscientious man sometimes makes a mistake in favor of the Government—

A Unfortunately, there's a premium on being unconscientious—in other words, the conscientious man is more likely to overpay his taxes if he's a little taxpayer than if he's a big one.

Q Isn't there a broad distinction between tax avoidance and tax evasion? What is this distinction?

A I have tried to state that distinction. I once wrote a book on it, and I decided after it was published that the book was a failure—there is no clear distinction. The popular distinction is that avoidance is taking advantage of what the law permits while evasion involves fraudulent conduct.

Q There are proper avoidances, aren't there?

A Oh, sure, there are many legal avoidances. And Justice Holmes once said that "when the law draws a line, a case is on one side of it or the other, and if on the safe side is none the worse legally that a party has availed himself to the full of what the law permits."

WHAT A TAXPAYER CAN DO—

Q What is the proper procedure, then, so that a man won't be paying more than the law requires?

A You might say there is really one recourse which I didn't mention: He should make a study of it himself. He ought to know about taxes anyway—it's a citizen's duty to know about our tax system—so he ought to give as much time as possible himself. And, while it's complicated, he can often work out the answer.

Q Can he get all he should know from the instructions that come from the Internal Revenue Service?

A Well, I would say he would have a hard time—he ought to read some supposedly simplified versions—

Q Could the newspapers help more than they do, do you think?

A Possibly. Frequently the newspapers do run helpful columns around March—early in March.

Q That's it—it's being run mostly just before, but if the man hasn't kept records it will do him no good—

A True—so many deductions, like expense accounts, depend on keeping records. You've got to do that from the beginning to the end of the year, you can't wait until the next year.

Q For example, paying taxes on gasoline, those taxes are deductible, aren't they—the various State taxes?

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An Expert's Advice for Big Savings: Watch Capital Gains, Contributions, Interest, Insurance and Tax-Free Bonds

A Yes.

Q Can't you keep your receipts—get receipts?

A Not only is the gasoline tax deductible, but for many people the actual gasoline price is deductible in addition.

Q Why is that?

A Well, because he's using his car on business. Furthermore, his car may be depreciated and repairs to his car may be deducted in whole or in part if the car is used entirely or partially for business purposes.

Q So it's important for him to keep his records on things like that?

A Yes.

Saving on Doctor Bills

Q What are the other things that people mostly don't keep records on that they might? Medical expenses—aren't a certain amount of them deductible?

A Oh, yes, indeed—medical expenses are. I had something to do with getting that in the law in 1942.

Q Does that include drugs that you have to buy?

A Yes, within special limits. The general way a person may deduct medical expenses is if they're over—I think it's 3 per cent of his adjusted gross income, up to a specified amount, depending on his status. The top figure is $10,000 a year that you can deduct, for some taxpayers. And people over 65 may disregard the 3 per cent floor and deduct all their medical expenses up to the top limit—and they are the ones most likely to be ill.

In the case of medical expense, if you throw away your doctor bills or don't keep a check stub and don't have any evidence, you're up against it.

If You Work At Home

Q Can a man get a deduction for work done in his own home?

A If you mean that he requires part of his home for an office, like a doctor, he can deduct a proportion of the total cost of repairs to his house, a proportion of the expenses of running the home—a proportion of rent if he does not own the home.

Q What about a reporter who writes his stories at home?

A I don't know what the rule would be there, but a reporter, I suppose, who has people visit him at his home as a regular thing or who has no office furnished by his employer and does his writing at home—

Q A writer certainly does—and a novelist, for example, would—

A Well, a novelist wouldn't have any other office provided for him, ordinarily, so he would certainly be like a doctor.

Q What about a couple with investments? Can they deduct costs of managing those investments?

—USN&WR Photo

Randolph E. Paul is one of the country's top tax lawyers. For 42 years he has specialized in taxes as practicing attorney, Treasury official and lecturer on taxes at Yale and Harvard universities. As General Counsel for the Treasury from August, 1942, to March, 1944, he was the author of many tax laws. He also has written several studies of federal taxation. Now he is senior partner of a law firm with offices in New York City and Washington.

A Married couples living at least partly off investments which require management can often take deductions for part of their expenses—the cost of investment-counsel advice, a safety deposit box.

Q A man who works at home at night, on his office work, does he get any chance at deduction?

A I should suppose he'd have a hard time.

WHEN ESTIMATES ARE O.K.—

Q If you don't have accurate records, can you not deduct a reasonable approximation?

A It depends on the Revenue agent you get. Some of them will accept estimates, but their instructions are to have reasonable records—some of them prefer to be strict.

Q Couldn't one estimate his gasoline tax?

A You could.

Q Most people don't keep a record of gasoline—

(Continued on next page)

. . . "It's advisable to make all contributions by check"

A You could keep a little book, or you could take a credit card at a gasoline station and pay your bills by check—

Q They will accept as evidence even your wife's budget account as to what you spend each month?

A Almost anything is evidence. Some people think of evidence as some stereotyped form of record, but that isn't true. You could bring your wife's book, if you wanted. That would be good evidence, with an entry in it each day.

Q You could use the mileage record on your car, too, couldn't you—between two years?

A That would be a reasonably approximate estimate, but it wouldn't be as good as keeping a record.

Q It's up to the agent to decide whether it's good evidence or bad evidence, isn't it?

A It's up to the agent in the first instance, or you might fight your case in court. The court may be a little more lenient about evidence than some Revenue agents.

Tax Aid for Losses

Q Isn't the biggest lack of knowledge on the subject of losses?

A A loss is not deductible if it's personal loss. It's got to be a loss in business or a loss in a transaction entered into for profit.

Q Except disaster loss—casualty and—

A Casualty and theft losses. For instance, a modern example of a loss probably a lot of people don't realize they can deduct is—and it's been very troublesome the last two or three years—hurricane losses, damage to trees. Losses by theft would be exampled by a stolen automobile, burglary—

Q If it's not covered by insurance?

A Oh, of course; that is true as to all losses. But a loss on a fire in your personal residence or a theft loss is often not adequately covered by insurance.

Q If you had a hurricane loss in which your house was damaged, would the entire rebuilding be considered the loss—the cost of replacement—or would they estimate what the house is worth and what proportion of the house had been damaged? Is the loss how much you have to pay to repair it?

A No, your loss is the difference between the fair market value of the property before and after the damage occurred, but the loss is limited by the original cost.

Q Replaceable cost?

A The original cost.

Q A lot of people don't take any deduction. Take trees, for example, that you mentioned, which presumably did not cost you anything in the first place—

A If you bought the property, the trees represented part of the cost to you of that property. The Department of Agriculture has a formula, depending on the circumference or diameter of the trunk—I don't know the detail of it—that helps on the question of value of trees. But Internal Revenue applies the test I mentioned. You must remember that a reasonable estimate is likely to be accepted.

Q If your unreimbursed loss is greater than your taxable income for the year, can the individual carry over any personal loss?

A He can carry over losses incurred through theft or embezzlement.

Q Not casualty?

A Casualty losses also. That question came up and the provision was added in 1951, when they had a lot of storm losses in Kansas. Senator Carlson got that provision on the books—not most losses, however, but business losses, yes.

Q What about a person who has to pay his commuter's fare to his place of business?

A That's not deductible, but his expenses away from home are. On commuter's fare, it's always been the rule—an argument can be made both ways—that the man who comes in from the suburbs on the train can't deduct the cost of his ticket.

Q He can't deduct the gasoline either?

A Not if he's just coming to his office. But a salesman going around can. In other words, commuters' fares, whether they be by car, train, trolley or what not, can't be deducted. And that's been a rule from the very beginning.

FOR CHARITY'S SAKE—

Q Do you think most people realize the extent to which they can deduct their charitable contributions?

A I don't think they do. Of course, you know that donations to educational, religious and charitable institutions—and various institutions—are deductible. But there's a complication about that. You know there is what is called the "standard deduction"—that is, 10 per cent of your income up to $10,000, or a maximum of $1,000. Incidentally, there's an unfairness there, because a single person can get up to $1,000 but a married couple, where there are two people in the return, also only get up to $1,000—$500 for each.

The "standard deduction" is supposed to replace a number of those personal deductions, like personal interest, charitable contributions—deductions like that. A lot of people really don't realize that there might be an advantage in taking their personal deductions; they assume that their "standard deduction" is greater than their itemized deductions.

Q What do you mean by "standard deduction"?

A That's the deduction to which everybody is entitled.

Q I thought we were entitled to 15 per cent—

A You're thinking of the limitation on charitable deductions—and that isn't 15 per cent any more, that's gone up to 20 per cent, and for gifts to certain types of worthy causes it's 30 per cent.

Cash on the Plate at Church

Q But that 20 per cent, let's say, includes many items that the average person does not list. Lots of people give contributions in the churches—on the plate—and they never keep a record of how much they put on the plate each Sunday. That's deductible, isn't it?

A It certainly is.

Q And if they give money to the Boy Scouts or any of a thousand things—the Red Cross, their alma mater—if they keep records of that, they're entitled to deduct that up to 20 per cent of their income?

A Yes, and, of course, if the taxpayer has a checking account, it's advisable to make all those contributions by check. But you could have some idea of your church contribution. You know how much you're in the habit of putting in the plate every Sunday. You wouldn't have any trouble with that.

Q But a lot of people don't even know they can deduct it—

A Any contribution to a church is deductible.

Q A charitable deduction?

A Well, that's a religious institution—there are charitable,

religious, literary, educational or scientific deductions. Scientific organizations are an example. For instance, a school of psychiatry, or something like that—

Q If I use my personal car in connection with soliciting for the Community Chest, for example, are my out-of-pocket expenses deductible—in addition to my contribution?

A They ought to be, because if you did go around any other way they would be. In other words, if you solicited for the Red Cross and the Red Cross paid your expenses, and then you gave a check to the Red Cross, you'd have a deduction. So, strictly speaking, they should be—

Q How do you draw a line on contributions to foundations that allegedly have a scientific function but might be primarily propaganda?

A The Treasury publishes a list of organizations to which you can make deductible contributions, and they keep it reasonably up to date. It's a thick volume. You can look in that. Every organization in the United States that's entitled to exemption is published there—and they supplement it every once in a while.

Q Where would one have access to that book—out over the country? Would Revenue officers over the country have copies?

A Oh, surely.

Q Can a person take the "standard deduction" and the 20 per cent as well?

A You mean the 20 per cent charitable deduction?

Q Yes.

A No. The "standard deduction" is supposed to be in lieu of contributions and various other personal deductions.

Q So that people are really cheating themselves who may be giving more—

A The "standard deduction" is supposed to be in lieu of charitable gifts, medical expenses, alimony—

How Alimony Is Handled

Q Alimony isn't a deduction, is it?

A Under certain circumstances. And that's an example of what we were saying earlier. It's very difficult to determine whether alimony is deductible by the person who pays it, and whether it is income to the person that receives it. There have been almost numberless cases in the courts on that.

Q Under the new rules, if it is one it would have to be the other, wouldn't it?

A They're correlated, yes. If it's income to the wife, it's usually deductible by the husband.

Q Is all of the alimony deductible, or only up to the standard deduction?

A All alimony is deductible, if it qualifies under the statute and is paid periodically, unless it's in the class where it is treated as payments against a lump-sum settlement. A man may pay $50,000 a year to his wife if she gets a good settlement, and he can deduct the full amount.

Q His wife has to pay a tax on the income, doesn't she?

A That's right.

Q When she receives it, would she draw the distinction between alimony and support payments for the children?

A Support payments to the children are not deductible.

Q Are separate-maintenance payments to a former wife deductible?

A Oh, yes, that's alimony.

Q Under the new rules, does there have to be a divorce?

A A separation is sufficient.

Q Then the agreement doesn't have to be made part of a court decree, under the new rules?

A That's right. The law was changed on that. There had been a lot of trouble about alimony—about what payments were incident to a court decree.

Q Who determines whether or not you are paying "separate maintenance"?

A The payment has to be pursuant to a separation agreement or a decree of divorce, separate maintenance, or simply a decree requiring the husband to support the wife.

Q It has to be a written agreement?

A Yes.

WHY "STANDARD DEDUCTION"—

Q In case of a joint return, do you get one "standard deduction" or two, one for each person?

A You get up to a thousand dollars—really, two married people get the same total as a single person, which has, it might be said, an element of injustice. But I don't think married people generally have too much right to complain, because they get a better break on the rate schedule than do people who are not married.

Q To clear up this point about the "standard deduction" being "in lieu of"—why does anybody take it if he's got 20 per cent charitable deductions out of his income?

A A person takes the "standard deduction" for one of two reasons: Either it's larger than his itemized deduction would be, or he's too lazy or careless to figure out his itemized deductions.

Q And it might well be that if he figured out what he could deduct on the itemized basis he would not take the "standard deduction"?

A Frequently, if he kept records and sat down and did the job on his returns, he would find that his itemized deductions came to more. But he leaves his preparation of the return to the last minute, and he can't find this and he can't find that, and he gives up and just takes the "standard deduction."

Q He doesn't know his rights on it?

A He doesn't know, and he doesn't know the terribly complicated answers to the terribly complicated questions that arise in preparing his return; because, there again, it's often just as hard to determine these questions affecting a few dollars as it is the questions involving many.

Q So, lots of people, rather than have the bother, pay the tax, don't they?

A That's right.

Income Without Tax

Q What are the exemptions, other than for one's children, that are really—

A You mean the exemptions pertaining to certain types of income, like gifts—

Q Yes. Gifts are exempt, aren't they?

A Yes. Examples of untaxed income include pensions paid by an employer to the widow or dependents of his employes, up to $5,000—a lot of people don't know about that—the rental value of a parsonage; meals and lodging furnished for the convenience of an employer; sick pay up to $100 a week;

(Continued on next page)

. . . A man 55 or 60: "Get some U.S. savings bonds"

awards for personal injuries, like money received in a slander suit or an action for breach of promise to marry—

Q Those are not considered income for tax purposes?

A No, those are not even income.

Q Not even income?

A The law specifically excludes those items from gross income. Then there are: a certain amount of dividends, part of annuities, scholarships up to $300 a month, amounts received by inheritance or bequest.

And, of course, you have the option on U. S. savings bonds—E bonds—of not paying any tax until the maturity of the bond.

Q Is that sometimes an advantage?

A A very great advantage to some people. Let's say you're 60 years old and you buy a 10-year bond. You're making a lot of money at the age of 60, but you expect to retire and your income is going to go down. Well, if you report that income when you're 70, after you've retired, you get a much lower tax.

Q Because your income at that time is lower?

A That's right.

Q Is that a good reason for buying savings bonds even when you're about 45, because you could hold them 20 years?

A I don't know whether you can count on the Government continuing that option so long. But, certainly, a man 55 or 60 would be well advised to get some U. S. savings bonds.

SELLING A HOME—

Q Is the income on the sale of your property often exempt—the gain, I mean?

A You mean on the sale of a taxpayer's residence? Yes, I had something to do with putting in that provision. It seemed to me a great injustice, as I originally conceived it, that men came to Washington in Government service and couldn't rent a place. They bought a house here—and then they were shifted somewhere else. At a very early time—we had inflation—I suggested to Congress that when the taxpayer sold his house in Washington and moved, say, to Chicago, he ought not to be taxed on his gain if he turned around and bought another house somewhere else.

Q At the same amount?

A No, it can be more or less. Under the present rule, he has to buy another house or use the proceeds within the year before or after he makes the sale, then there's no gain on the sale of a personal residence. Very few people know about that.

Q If he buys a house for $25,000 and he sells his house for $30,000, there's a $5,000 difference—isn't he charged on that $5,000 difference, either?

A No, he isn't if he buys another house—if he uses the $30,000 to buy another house.

Q He has to put all his gain into a new house—

A That principle, which I originally suggested as to Government employes, has now been stretched to everybody—it took about five years to get that into the law.

Q What about the money that an ex-soldier gets under the GI Bill of Rights—is that taxable?

A Broadly speaking, no.

Q What about policemen's expenses?

A Policemen's expense allowances are not taxable. It is quite common, I understand, for policemen to have expense allowances.

Q What about the fairness or unfairness of the individual who spends money in connection with his business—with his own business—and doesn't charge his company for those expenses. Can he deduct them himself?

A I think there's a certain unfairness there. The average person has to put those against his "standard deduction." Now, that isn't always true—salesmen can deduct them. But you have to be in business to get a business deduction, and employed persons come in a category in which business deductions are replaced by the "standard deduction."

Who Can Deduct for Entertainment

Q What if an individual in a business requires entertainment—goes out and entertains and submits his expense account. That's O.K.'d by the company, and he is then reimbursed. But suppose he doesn't submit them all—there's a question in his mind that maybe half of it is proper for expense and the other half is personal. Can he submit that himself, as a part of his expenses, in his income tax return?

A He can, but it's charged against his "standard deduction." That's the unfairness of it. If he had very large expenses it would pay him to itemize them; then he would get the benefit of the deduction. Of course, he would have to prove the amount, and that the expenses were required by his job.

Q He would get a deduction which might be larger than the "standard deduction"?

A Anybody who entertains—supposing somebody in my office, some associate lawyer employed by the office, wants to entertain. He gets business for the office—a lot of it's done that way, they say. He could deduct that, because if the entertainment were successful he would have to report anything he received from those fees in his income.

Q Wouldn't the company reimburse him if it were a personal expense?

A No—most law offices, for instance, wouldn't reimburse a lawyer for that type of expenditure.

Q But if it were some other kind of business—where the man is working for a big corporation and he entertains somebody and doesn't submit an expense account but figures that he's entitled to a personal deduction; would the Treasury accept it?

A If he could prove the entertainment was required by his work, yes.

Q In other words, irrespective of whether he submits it to the company or not, if it's a valid expense it's deductible to somebody?

A If it's a valid expense in the sense of being ordinary and necessary in his business. One example of that would be a uniform. A lot of people make their employes buy their own uniforms. Well, the employes get deductions for that.

Q Military uniforms—they don't get deductions for that, do they?

A No, they can't. The uniforms can be worn off duty, like ordinary clothing.

Q Take an elevator man, for instance, who may have to buy his own uniform, or an usher, or an airline pilot—I don't know whether he has to buy his own uniform or not, but, if he did, that would certainly be a justifiable expense, wouldn't it?

A Yes, in that case, certainly.

Q On that question of entertainment, let's take a case that's fairly common—a department head, let's say, in a company, who once a year gives a party for the employes under

. . . Loss on deductions not taken—"43 cents on the dollar"

him. He does that for employe relations. Is that expense deductible?

A I would think it should be, but I wouldn't be sure the Internal Revenue Service would allow it unless he could prove company policy required him to assume those costs.

Q There would be no question if the company reimbursed him, however, would there?

A If the company reimbursed him, then there would be no problem. But he couldn't take the deduction without reporting the reimbursement as income.

Q I was talking about a case where he was out of pocket and was not reimbursed—

A Yes, of course.

Where Interest Is Hidden

Q Do most people realize that the interest that they pay on any form of loan is deductible?

A No, and one of the things I think most taxpayers do not know is that they can deduct interest paid on their life insurance loans. For instance, if you borrow on your life insurance, you're charged 6 per cent by the insurance company—incidentally, you can get it cheaper if you go to a bank, but the insurance companies still charge 6 per cent interest—well, that interest is deductible.

The interest you pay when you buy a washing machine or an automobile on installments—frequently these companies that sell these appliances don't make the interest part of the payment clear to the purchaser, so that it's hard for him to determine how much is interest and how much is payment of principal.

Q If you have a co-operative apartment, part of the fee you pay each month is interest, too, isn't it? That's deductible?

A That's right. As a matter of fact, I suggested that provision back in '42 or '43, but I haven't looked at it since.

Q That is deductible—that interest?

A The shareholder's part of interest and real estate taxes paid by the co-operative apartment is deductible. In other words, the co-operative apartment is put in the class of a home. You pay interest on the mortgage on your house—the house you own—and that interest is deductible.

Q Is the interest on any note deductible?

A Interest of any kind of personal liability is deductible without limitation—unless it's interest paid on amounts borrowed to purchase tax-exempt bonds or other sources of tax-exempt income.

UNTAXED DIVIDENDS—

Q What about the income from interest, is that always income—no exemptions? Do you pay taxes on every form of income?

A No—not on interest on the bonds of States and municipalities.

Q Is that an exception?

A That's the main exception.

Q Any form of interest or dividends is taxable?

A No—not all payments that we call dividends are taxable.

Q What kind is that?

A Well, if you buy some stock of United Corporation you don't pay any tax on the dividends you receive.

Q Why not?

A The United Corporation is only an example; there are others, like Electric Bond & Share and other companies. You can't get a dividend unless the corporation which makes the distribution to you has what are called "earnings and profits."

The United Corporation doesn't have any earnings and profits because each year it takes a loss on certain old securities it holds. So it never has any earnings and profits. Distributions by the United Corporation are called "returns of capital," and they're not taxable until they total more than you paid for the stock.

Q How long can they keep on having losses like that?

A They've been going on for years. I don't know.

Q Are there any other dividends that are not taxable?

A There's a distinction between dividends which are current payments of corporate profit and distributions which are in liquidation, and that's really what these United payments are—they're distributions in liquidation. That's a very elaborate and complicated thing; it wouldn't be particularly meaningful to the small taxpayer anyway.

Q What about stock dividends? Are they taxable?

A No, they're not taxable when received by the stockholder.

Q The theory is that there is no gain, so you don't pay any tax?

A The theory is that you just have two pieces of paper instead of one representing an interest in the corporation. There is no income in the constitutional sense.

Q At what level of income, really, does it become important to be watchful about deductions? The man in higher brackets?

A Well, the man in the higher brackets usually is pretty watchful.

Q I mean, at about what level does it begin to count up?

A It counts up pretty low. You look at the rate schedule—unmarried persons get a tax rate of 43 per cent at $20,000. Well, as you can figure, 43 cents is lost on every dollar of deduction you don't take.

TAXES YOU CAN DEDUCT—

Q What about some of the taxes—are they all deductible, every form of taxes?

A No, not income taxes. Real estate taxes are, State income taxes are deductible—

Q Most people don't know that, do you think? Are any federal taxes deductible?

A Well, federal excise taxes are sometimes deductible.

Q I thought that was out?

A Federal excise taxes can sometimes be deducted as trade or business expenses, or as expenses for the production of income.

Q Let's take it from the three levels, starting with the State and the county. Are all State and county taxes deductible?

A Not quite all. State inheritance taxes, for example, are not deductible.

Assessments That Improve Property

Q How about assessments, as they call it, in State and county?

A Special benefit?

Q Special benefit, yes—

(Continued on next page)

. . . "Farmer gets certain special deductions"

A No, they're not deductible. The theory is that they improve the value of your property. They're added to the cost of your property.

Q Then what if you sold it?

A They're deductible from what you get in computing profit.

Q What about paving?

A Paving is a "special benefit."

Q What about school taxes for school districts?

A Oh, no—most all State and local taxes are deductible.

Q Well, what about State sales tax and city sales tax?

A All deductible. And there the person who charges things has an advantage, because he has a record at the end of the year.

Don't Overlook Sales Tax

Q You say that State sales taxes are deductible?

A You're right; they are.

Q Well, how is the customer going to know what the tax is? Can he demand a check always for showing the tax? Some States used to forbid you to mark the tax on your sales slip—

A I know out in Maryland they make a practice when you buy groceries of showing the tax separately.

Q Isn't it the rule that all State excise taxes that aren't shown but are passed on directly to the customer as part of the retail price are not deductible?

A Most State sales taxes are separately stated and passed on, they're paid by the purchaser—

Q If it's just been passed on to the customer, that doesn't make it deductible?

A If it's passed on as part of the cost of the goods it wouldn't be deductible, no.

Q Would you say any form of sales tax in the States is deductible on federal tax returns?

A Yes.

Q How about the tax on telephone calls?

A They are not deductible.

Q If my wife goes in the store and buys a pocketbook imported from a foreign country, and the sales slip indicates the price and the tax—is that deductible?

A The federal tax is not deductible. The State tax is.

Q Are customs duties deductible?

A No.

Q What about a toll, say, on a toll road or a bridge?

A I wouldn't think that's a tax, that's a payment for going over the bridge, I would suppose.

A BREAK FOR FARMERS—

Q About farms, now—farmers get a lot of tax exemptions, don't they?

A They get a break, yes. In the first place, of course, farmers consume a lot of their own products and don't pay any tax on them.

Q You mean, that's income that they don't pay any tax on?

A Yes, something that the ordinary person like you and me has to go and buy at the grocery store out of taxed money.

Q He's supposed to set up part of that as income—

A Well, he doesn't—

Q Soil and water-conservation expenses, are those deductible—and fertilizer?

A Those are deductible, and breeding fees, veterinarian's fees—

Q What about hired help? Is all his help deductible?

A If the farmer's in business—I'm assuming here that the farmer is in business—yes, all the expense of his help, of course.

Q Including the cost of serving meals for the help?

A Yes, of course.

Q If the farmer is treated as any operator of a business, then all his expenses are deductible?

A That's right.

Q The farmer is not treated any different from any other little businessman, is he?

A He gets certain special deductions—that is, certain provisions apply, really, primarily, to farmers. For instance, he gets capital gains right on sales of crops with the land.

Q That's only if he sets up his books in a certain way, isn't it?

A Well, that would be if he sold his land with the unharvested crop—

Q Oh, yes, I see. On Christmas trees, doesn't he get the right to pay a tax on capital gains instead of direct income?

A That's part of the general timber provision—they pay a capital-gains tax on the sale of timber.

Q What about a man who farms just as a side hobby?

A He doesn't get these deductions.

Q He does if he does it on a large scale—

A The question is whether he's operating his farm for profit, and one of the tests for that would be whether the farm was a sufficiently large operation to justify the claim that it was conducted for profit.

Q Ordinary hobby farming, but—

A Hobby anything. Hobby expenses are not deductible—

Q Yes, but a farm is an operating business. If you lose money in it—there's no limit on the amount that you can lose—

A That's right—and you can deduct those losses against your other income.

Q And that can go on for any number of years—

A No. If it happens that you have a loss too many years in succession the Service may question whether you're operating the farm for profit.

Q Under their own regulations?

A Yes.

BABY SITTERS, YES AND NO—

Q What about child care? What's the baby-sitter deduction? Can you do anything about that?

A That's a very complicated deduction—which it shouldn't be, since it's intended to benefit working mothers of low income.

You can get as much as $600 a year for the care of children under 12 years old—I suppose the theory is that you don't need to have baby sitters after the children are 12—or for dependents who are capable of caring for themselves.

This deduction is only available to a married woman where she files a joint return with her husband and their combined adjusted gross income is less than $5,100. So you can see how limited the deduction is.

. . . "Life insurance is a very favorable form of investment"

Q Mr. Paul, you meant there that it is available to widows, but in the case of a married couple it applies in the way you said?

A That's right.

A Club—for Fun or Profit?

Q What about some miscellaneous expenses—such as club dues? How far can you deduct those?

A If your dues are to a social club which you joined for social purposes, they're not supposed to be deductible. If, on the other hand, your dues are paid to a club—including social clubs—and your primary purpose in paying the dues is to use the club in your business, you can deduct them. Generally speaking, the Government is pretty liberal about that.

Q What about those who use a club for business purposes?

A That's the distinction. It's probably one of the most frequently deducted of all nondeductible expenses. Of course, it could be rather complicated—you could be 50 per cent in the club for social reasons and 50 per cent for business reasons.

Q In connection with the working space in a home, if it's used by a self-employed person, what would be your measure of that?

A Well, if he rents it—say there are 10 rooms in the house and he uses two for business purposes—you'd roughly say that one fifth of the rent is deductible. If he owns the house, he could take depreciation of one fifth of the cost and he could take one fifth of the repairs or the repairs he makes on that particular part of that he uses for business.

Q What about the heat and light?

A He can take that proportion of heat and light. All the expenses of running that establishment are allocated. For example, if he hadn't a telephone in his office, a proportion of the whole telephone bill can be deducted.

Q What if he fixes up a room in the basement to use for business?

A It doesn't matter whether it's in the basement or the attic, he can deduct if the room is in use for business purposes.

WHAT HAPPENS AFTER 65—

Q What about people over 65—certain things happen after you get 65—don't you get a deduction in taxes?

A Well, you get more favorable treatment in the medical-expense deduction—I mentioned that—and, for instance, taxpayers who are over 65 or whose spouses are over 65 get all medical expenses, without any 3 per cent requirement. Then you get an extra personal exemption of $600 if you're over 65, and another extra exemption for your wife if she is over 65 and you file a separate return; and then you get $600 off if you're blind.

Before I left the office, I asked somebody if a person and his wife were over 65 and each blind, how many exemptions would they get, and I was told they'd get six—the regular pair, two for being over 65, and two for being blind.

Q What about annuities?

A Annuities are partly taxable and partly not. It's very complicated, unfortunately. Each payment you get is considered a return of the cost of your annuity, in part; and in part the payment of the equivalent of interest. There's an elaborate formula for determining the amount of each part.

It's often forgotten, though, that probably the major part of every annuity payment is not taxable—the money which you're getting back.

Q What if you retired and moved abroad? Could you save taxes? Do the American taxes follow you?

A The American taxes follow you if you're a citizen. Except that up to $20,000, I believe it is, you're not taxed on earnings abroad. You remember, there used to be no limitation, and a lot of movies were then being made abroad. It became very popular to make movies abroad, so they put the limitation down to $20,000 a year.

PENSIONS & PROFIT SHARING—

Q Is the Social Security retirement payment taxable?

A Social Security payments are not taxable.

Q How about payments which are made to you in the form of a pension out of a profit-sharing fund which you've accumulated during a period of time?

A They're taxable. Taxes are regular, except when it was a contributory pension and you paid for part of it. If it's contributed solely by your employer, it's taxable when you receive the distribution from the pension fund.

Q Is it taxable in one year, or can you split it?

A It can be split, or taken in a lump sum, depending on the pension trust. There is also the benefit that your pension trust fund is not taxable while it's accumulating, and the contributing company may get a deduction right away even though there's no tax paid by the employe right away.

Q So there are advantages to that type of operation?

A I read a Security Exchange pamphlet this morning, and I was perfectly astonished at the growth of pension trust funds—they're becoming a big factor in the market.

Q Profit-sharing or pension?

A Pension and profit-sharing funds. I think the total assets of those funds—excluding insurance companies— is now something like 16 billion dollars.

Q If the money should be paid in a lump sum—say, in the event of death—that's taxable to that one year, isn't it, as a single item? Or is that exempt?

A A lump sum? The employe can get capital-gains treatment if the distribution is received in one taxable year on account of his death or separation from service.

Help From Life Insurance

Q What about life insurance? Is that taxable?

A Life insurance is not subject to income tax when it's paid on the death of the insured. Life insurance is a very favorable type of investment. Let's say you take a 20-year endowment policy: You get protection; you also, if you survive the 20-year period, get the face amout of the policy at the end of that period; and, if you die before the end of the 20-year period, you get everything—your widow or your beneficiary gets everything—exempt from tax. So the proceeds of the policy are intact.

On the other hand, if you don't die, then, at the end of 20 years, the payment is made to you in person. Let's say it's $50,000 and let's say your premiums have amounted to $40,000—you have a gain there of $10,000. But you have counted against the $50,000 a total of $40,000—part of which was paid for insurance protection, was not paid as an investment—so that your tax is only on $10,000.

(Continued on next page)

. . . "Many personal lunches become business luncheons"

Q Capital gain or direct income?

A It would be capital gain. The theory is that you bought the insurance for $40,000 and you receive $50,000—that's a capital gain. In addition, included in the $40,000, which you offset against the $50,000, is the cost you paid for protection—as well as the cost of the investment.

Q What about interest payments that you may have let accumulate to help pay the premiums—are they taxable at the time you get your paid-up policy?

A Dividends paid on insurance policies are not income. Probably that's a thing that a lot of people don't realize. They're counted as an offset to the cost. When you let them accumulate, as you suggest, you are in effect receiving a rebate on your cost of the insurance, and putting it back into the insurance investment.

Q And that's not taxable?

A It wouldn't be taxable, it would be receipt of a dividend and a reinvestment of the dividend proceeds under the policy arrangement.

It Can Pay to Be Sick

Q What about sick pay as income? Up to $100 a week is not taxable?

A That's about it—

Q Sick pay from an employer, up to $100 a week—but can an employe draw any number of weeks?

A I don't think there's any limit. There's a limit on how long your firm will pay you—

DINNERS ON THE BOSS—

Q If the employer furnishes meals and lodging to his employes, there are certain situations under which that must be counted as income to the employe. What are some of those situations?

A A very curious line is drawn. It's one that's called the "convenience of the employer" rule, and it causes great difficulty. If a construction company building a dam somewhere furnishes lodging and meals, doing so for its own convenience, to insure more continuous operation, those lodgings and those meals are not taxable.

Q Aren't they income to the ones who receive them?

A No, they're not income then. I think another example would be a prison superintendent, or somebody like that. Of course, a debatable case is a college president—he gets lodging from the college, usually. That's a delicate subject which we'd better not discuss. The President of the United States has a house furnished to him.

Q You don't know whether he pays a tax on it?

A He doesn't have to pay—that's for the convenience of his employer, I guess, to have him there. Perhaps he'd rather be in Gettysburg—but they make him stay here.

Q How about a nurse living in the household?

A If she was living in the household for the convenience of the employer, I suppose the value of her lodgings wouldn't be income.

Q What about maids?

A Those questions don't arise very often with respect to maids. The situation where great difficulty has arisen in this regard is in hospitals. I once got a ruling on when the lodging and the meals furnished to interns and nurses and janitors, and what not, in a hospital—when they're taxable and when they aren't. I can hardly understand the ruling myself—its very complicated.

Q What about a company that's remote from a man's home and decides to supply the lunch, so the man won't spend an hour going home and an hour coming back—that's a convenience for the employer—

A That would be, I should assume, for the convenience of the employer, and the meal wouldn't be taxable.

Q But in the cafeterias in which a lot of companies supply food, if the individual pays for it, is it deductible to him?

A Sure, it's deductible to the employer—

Q To the employe, I mean, if the employe pays for the meal in the cafeteria—

A That's not deductible—that's a personal expenditure.

Q That employe has to maintain an establishment back home where food has to be bought just the same, and the traveling salesman gets the deduction—

A There's always a certain amount of arbitrary line drawing all around here, but you can't deduct the cost of your lunch at a hotel if you just go there by yourself.

Q If you go with somebody else, can it be deducted?

A You're only supposed to deduct that part of the check allocated to your guest when you're entertaining—

Q It's got to be for business reasons?

A Oh, sure. If you just have a personal lunch—but it's remarkable how many of these personal lunches become business luncheons.

Q Mr. Paul, on this matter of the "standard deduction" system that, I think, is used by some people who customarily can't exceed the "standard deduction" so they don't itemize: For one year, say 1955, they take the "standard deduction," but they hold back their contributions to charity and their local and State taxes, and so on, and bunch those up in the following year, and in the following year itemize. Is that legitimate?

A I would say so.

When a Relative Can't Work

Q What's the situation with respect to disabled members of your family who are unable to work and who are dependent on you? Does the law recognize them as dependents?

A Yes.

Q If they're totally disabled only?

A Persons who are dependent, children, for instance, are—

Q But over 18—

A They've taken off the 18-year limitation, I think; but disabled people who are dependent upon you for support are the subjects of a dependency credit if they're related to you in certain ways: children, parents, in-laws—I don't remember all of them—nephews and nieces, I should suppose.

By the way, where a working wife has a disabled husband, she gets the full child-care deduction.

MAKING DEPENDENTS COUNT—

Q Even though they don't live with you?

A Yes. I'm taking a deduction for my sister who lives up in New Jersey. This is a point in that connection that may not be widely known: Suppose more than one person contributes to the support of a dependent, which frequently happens. They may shift about the dependency credit by arrangement of the two persons contributing.

. . . "Very astute taxpayer wouldn't sell house at a loss"

Anybody who contributes as much as 10 per cent to the support of a dependent can claim the whole dependency credit, provided the others who contribute waive the credit.

Q But the person who is the dependent must be a person who does not earn any income—

A No, I wouldn't say that if the dependent earned any money at all that would prevent you—

A Teen-Ager Who Earns

Q Wasn't that changed this year so that in the case of a school child earning more than the $600—

A The school child, yes, or any child under 19.

Q Although he is your dependent he can earn more than $600 but still—

A That's right—up to 19, or while he is a student. It used to be that if the person earned $601 he wasn't your dependent. You know what happened—I know of young boys that earned $599 and then stopped working because it hurt their fathers for them to work.

Q Suppose someone is divorced or doesn't live with her husband and their children have to be supported. Are the expenses for those children deductions for the person who supports them?

A In the ordinary situation there, the husband would contribute to the support of the children even though they were living with the wife, and he would take dependency exemptions because the children are dependent on him.

Q What if the husband doesn't support the children—she can, can she not?

A If she supports them she certainly can take the exemption.

Q On that question of multiple support, I'm thinking of a dependent you may support only for 11 or 12 per cent. Isn't it a fact that this item of dependency can be shifted around from year to year?

A Yes. You know, it can work out in very curious ways. For instance, you may contribute 10 per cent, and 10 per cent could be, I suppose, less than $600. Then, if the others having lower brackets than you were willing to waive claiming their dependency credit, you could make money by the deal. You could deduct $600, and, if you're in the 75 per cent rate, you'd get a tax benefit of $450—and you might not even contribute $450.

Bad Debts Not All Bad

Q What about a bad-debt loss?

A A bad-debt loss is capital loss. Bad debts are in a different category. Now, on ordinary bad debts of a personal nature you get just a capital loss—you don't get an ordinary loss.

A bad debt in business is different. A business bad-debt loss is deductible in full.

Q Can you take a loss on the sale of your house if you have to sell it for less than you paid for it?

A No.

Q If you're renting it as a—

A If you were a very astute taxpayer you wouldn't sell your house at a loss. You'd convert it to profitable uses before you sold it—you'd rent it for a year and then you'd get a loss. There's a complicated formula for determining what the loss will be.

Q By that you run the risk of not being able to take advantage of the reinvestment of proceeds?

A That's correct. That provision is only to prevent a tax on a profit.

Q What you're really saying is that if you have a reason to use this house for rental purposes, you may then take a deduction for any loss when you subsequently sell the house?

A I don't think a bare intention floating around in your head somewhere would be enough. You'd have to have evidence of that intention some way, like the rental of the house for a while.

Q There was a ruling on that just the other day, and you can't do it even if you've advertised it for rent—it has to be actually rented. In order for that to work out, anyway, your loss would have to be more than the accumulated depreciation from the time you bought it, wouldn't it?

A No. When you rent the house, valuation is on a different basis. They count the value when you converted the house to business purposes, as I remember it.

INCORPORATING TO SAVE—

Q Can you tell us anything that we may have overlooked about ways to avoid paying taxes?

A Of course, one of the great losses of revenue—I'm speaking from the Government's point of view—is the use of corporations as depositaries for funds. In other words, you can accumulate profits in small corporations as long as they're not personal holding companies. In small corporations the rate is not 52 per cent, it's 30 per cent on the first $25,000 of income. That's one of the main ways of avoiding taxes: Incorporate your business and let the profits lie there.

Q Then they come under Section 102, don't they?

A Well, the old Section 102 doesn't have much power any more.

Q That's the one about disbursing unreasonably accumulated profits?

A That's right, but the provision taxes the corporation on unreasonably accumulated profits. That section was changed in the 1954 Code, and the burden of showing the unreasonableness of the accumulation was put on the Government, for one thing. For another thing, if there is an unreasonable accumulation, the tax is now imposed on that part of the income which is unreasonably accumulated, instead of on the entire income. And that change took the teeth out of that section.

Q How does he accumulate it in a small corporation?

A Well—suppose you have a filling station. To start with, you must have a corporation, and there are always certain disadvantages in having a corporation. There are certain corporate State taxes, and all that sort of thing—it requires a very complicated analysis to determine whether you will profit by incorporating. But you incorporate your filling station or your automobile agency, you pay on your accumulated profits just the corporate rate—

Q Fifty-two per cent?

A That's right.

Q It may be small—

A If the corporation is small, the rate is 30 per cent. Fifty-two per cent may still be a favorable rate for you. You may have a lot of other income—your individual rate may be 75 per cent. Well, that money accumulated in your corporation, in which you or you and your wife own all the stock,

(Continued on next page)

. . . "One favorite way: Invest in tax-exempt securities"

is an addition to your wealth, but you don't pay any further income tax.

Q If you took it out of there in liquidation, wouldn't you pay 25 per cent capital gain?

A Yes, but not if you wait until you die, because then your estate gets a new basis.

Q So you just let money accumulate within the corporation?

A That's what it amounts to.

Q You're building an estate—

A You're just building up an estate.

Q Well, does the new rule permitting an independent business to be taxed as a corporation without becoming a corporation help that any? You could presumably still do that without actually incorporating—partnerships—

A That rule was enacted primarily for the benefit of a few commission merchants who, whether by custom or rules of the trade, are required to do business as partnerships.

Q But you couldn't accumulate in them, then—in a partnership—or could you?

A I suppose you could, but remember that a 20 per cent or more change in ownership will mean the end of corporate treatment.

THE "NEVER SELL 'EM" PLAN—

Q What are some of the other big methods of avoiding taxes—that big companies have found out? Do they reinvest their funds in securities and make big capital gains that way?

A The big way to avoid tax if you're a big operator, an individual operator, is to invest in securities that go up and never sell them. Then, when you die, your estate sells them and avoids a tax on the increased value because the estate takes the securities at their value at the date of your death. Say you bought General Motors 25 years ago and it's increased 10 or 20 times in value since that time.

What is General Motors selling for now—$46? Well, the stock has been split 6 for 1 in the last 25 years. Twenty-five years ago you could have bought a share for $35. That share today would be six shares worth a total of $276. All right, there's a gain of $241. If he sells, he pays a capital-gain tax on $241, but if he holds the share of stock till his death and his estate sells it, there's no gain.

Q It's just as though he had no gain?

A No taxable gain.

Q No taxable gain—except the estate tax?

A There is no federal income tax.

Q What about tax-exempt securities?

A Well, one of the favorite ways of avoiding federal income tax is to invest in tax-exempt securities.

Making Money Through Gifts

There's one trick about charitable contributions that perhaps some of you people realize. Let's say you're going to give $10,000 to your college at your reunion. If you give that in cash you're giving it as after-tax money, aren't you? But suppose you have some stock which is worth $10,000 and for which you only paid $2,000. You give that stock to the college and you get the full educational deduction—$10,000—but you don't pay any tax on the gain of $8,000.

Q You don't get any benefit out of it, either. You could if you're in a high-enough bracket—

A Well, I could show you an example where you would actually make money by giving rather than selling.

Suppose you make a gift of securities which have risen in value since you purchased them from $2,000 to $10,000. If you sold them, you would have $8,000—$10,000 less $2,000, the 25 per cent tax on your gain.

Now, to simplify matters, suppose that your taxable income, after all other deductions, exemptions and so forth, is $50,000. Your income tax, if you did not make the gift, would be $26,820. If you make the gift, you can deduct the full $10,000 against your adjusted gross income, and your taxable income will come down to $40,000. Your income tax will now be $19,740.

You will have saved $7,080 in taxes, and given up $8,000. If you change those figures, you quickly get to a point where you are better off giving that stock to a charity than you are selling it.

Even in this situation, I suppose, if you take estate taxes into consideration you will find that you are already making money by giving away your stock. Suppose you either keep the stock, or sell it and keep the proceeds. The amount you have left, $10,000 or $8,000, depending on whether or not you sell the stock, will be taxed in your estate. If your taxable estate were $500,000, your marginal rate of tax would be 32 per cent.

Suppose you keep the stock. Your descendants will have $6,800 of that $10,000 left, as against a tax benefit of $7,080 you would have received from giving it away. If you sell the stock, your descendants will receive only $5,440 as against $7,080 you would have had as a cash benefit from making the gift.

Oil Wells for Extra Allowances

Q How about investing in oil wells? Is that a good thing to do?

A Movie actresses are now doing it.

Q Can you get anything out of it by investing in their stock?

A Then you don't get percentage depletion.

Q You have to invest directly in the property?

A That's right.

Q You've got to own the well itself?

A Or an interest in it.

Q You can also go broke in that—

A You can go broke—not all the oil wells come in. But you know there is another tax benefit called intangible-development expense, in the lingo of that business, under which you can deduct your current expenses in developing an oil well against your other ordinary income even though your well is not yet producing.

It's very profitable if you make money—you make money which carries only a small tax burden if you invest in oil or even some of the other minerals, and you have already deducted your development expenses against other income which often would otherwise have been taxed at high rates.

INVENTORS AND AUTHORS—

Q What about the individual who engages in research and then comes in with an invention—can he deduct all the money he's spent in research as a part of his current expense or as part of his capital investment?

. . . Stock "valuation has been called a dignified guess"

A There's a new provision permitting deduction of research expenditures in the 1954 Code. The 1954 Code also permitted capital-gain treatment to patentees on the sale of their patents, which is not true of authors.

Q No, authors have had theirs taken away from them—

A Personally, I can't see the basic difference between an inventor and an author, but the inventors had a better lobby, I guess.

Q Well, the author can go back over the years which he has engaged in preparing his book—

A Yes, to some extent.

Q He only has three years—is that it?

A Yes, that is the way the law stands now.

Q Is that for the actual doing of the writing, or the accumulation of the material?

A I would say that the accumulation of material is part of the job.

Q What about architects—can they spread fees over years?

A It goes down the line, I think.

Q Lawyers?

A They'll allow that even to lawyers, but under a different section—you work on a case—

Q Maybe that's why some of the cases take so long—

A But, you see, if your income is reasonably high over the years it doesn't do you any good to stretch it out.

Q If you figure it out, President Truman's book didn't do him so much good. He only gets to keep $168,000 out of the $600,000 paid him. President Eisenhower was able to keep $476,000 out of the $635,000 for his book, but they amended the law after that—

A That's right—as a result of that.

Q Amos 'n' Andy and all the other fellows got it, too, those package deals—

A I believe the Jack Benny case was recently decided in his favor by the Tax Court.

Selling a Stock Dividend

Q What happens to a stock distribution in lieu of a dividend? You said you don't pay a tax on that, but suppose you cash that share right away at face value?

A Well, then you have capital gain, if the dividend is common on common.

Q That was all the gain?

A Just the same as if you sold your original stock. You're converting your holding into cash, there.

Q Could it be a short-term or a long-term period?

A You count both periods, you count the period of ownership of the new stock and the period of ownership of the old stock—

Q And divide it by two?

A —and call it "tacking" the period. If you held the original stock four months and the other stock two months you'd count the six months.

WHEN CAPITAL GAINS HELP—

Q The average person knows that there's some method whereby you can make money in the stock market on capital gains, but how many months before you can take such gains and get the lower tax rate?

A Six months.

Q If a man buys the stock and it goes up, and he sells it the next day, he'd have to pay an ordinary income tax rate—is that right?

A Correct.

Q What is the stock-option method?

A It's a method whereby people are allowed to buy stock in a company—generally the company they work for—and when they sell the stock—let's assume that their efforts contributed to the success of the company and the stock goes up—when they sell the stock they pay a capital-gains tax on the difference between what they paid for the stock and what they receive on the sale. The benefit derived is that this profit on the stock is not counted as compensation—

Q Subject to regular taxation?

A It is subject to capital-gains tax and not to the high ordinary tax rates. That's the advantage, and that's what excites people about it. But there's one very unfair provision about the stock-option situation, and that is a limitation that you must pay—your option price must be 85 per cent or more of the real value—that's my recollection—

Q Value or current market price?

A It may be neither; to be precise: "fair market value."

Now, if you're dealing with a listed stock, you know what the value is and you can calculate the 85 per cent or 90 per cent very easily. If you're dealing with an unlisted company, who is to say what that stock is worth per share? So that you don't dare go into stock-option arrangements unless your stock is listed and you are sure of the value.

The result is that stock-option provisions are practically inapplicable to closely held companies and apply only to listed stocks.

Q An auditor's report would be sufficient evidence, wouldn't it? Audited by a certified public accountant of stature?

A Well, an auditor will always hedge his opinion to some extent.

Q The Treasury wouldn't necessarily take that, either; they set their own arbitrary value—

A Then you'd have to fight the case.

Q But there has to be some method of evaluation—

A Well, valuation has been called a dignified guess, and nobody can ever tell you what the value will be determined to be. I had a case where the Government claimed some stock was worth $390 a share and I had experts—even investment bankers—get on the stand and say it wasn't worth $75 a share. So you can see how wide the variation is—nobody would take a chance.

Cheaper After 6 Months

Q If a man buys stock and then sells it within six months, he pays the regular income tax rates. Now, supposing he holds it beyond six months, then what's his advantage?

A He gets a capital-gain rate. Now, that means, in effect—cutting out all the complications—that means in effect that he pays 25 per cent tax on his profit.

Q Is that a maximum?

A That's a maximum. If your rate should be lower than that—it's an optional rate. On the other hand, if a taxpayer didn't hold the stock for six months, and if he were a 90 per cent taxpayer, he'd pay 90 per cent of his profit.

Q That's what he's done—he's made a bet and he's got capital-gain rates. Now, supposing he goes into Las Vegas

(Continued on next page)

. . . "There are lots of advantages in setting up trusts"

and makes a bet—can he pay the 25 per cent there on his gains?

A No—he hasn't sold a capital asset there.

Q The British have no capital-gains tax—Canada the same way—

A The British have no capital-gains tax. But a great many transactions give rise to ordinary income there which we would treat as resulting in capital gains.

CARRYING LOSSES FORWARD—

Q What if the price goes down—you can lose, too—

A If the price goes down, you get a loss which is not generally deductible, except against other gains.

Q You have to wait until you get a profit before you can save money?

A No, you get a carry-forward for five years.

Q Up to a $5,000 maximum?

A You can carry your loss forward for five years. You do get $1,000 a year for five years against ordinary income, and anything above that $1,000 by way of loss you can carry over for a five-year period against your gains.

Q Hasn't the new law brought the most comprehensive change we've had since the first income tax law came into effect—in the total number of changes?

A If you're talking about changes in substance, I would say not necessarily so. The Code was changed almost as much in 1942. But, if you're talking about changes in wording, it's the most comprehensive change in all.

Q Then you don't know—

A We don't know, when we change the words, whether we've changed the substance.

Q It's a good thing for lawyers, isn't it?

A For young lawyers. It will take 20 years to find out what some of those provisions mean. I think the Congress attempted too much revision in 1954 in too short a time. They tried to rewrite too much of the tax law in one year. More tax law will have to be the cure. The process of clarification and amendment of the 1954 Code has only begun.

INCREASING YOUR ESTATE—

Q On the subject of gifts and estates, is there something that people can do to save on taxes?

A Well, of course, you know there is a marital deduction. Anybody making a will, whose wife is surviving, should be careful to consider taking advantage of that provision. Up to half of his estate—what he bequeaths to his wife—is not taxable as part of the estate. Of course, eventually that amount will be taxable in her estate when she dies.

One of the main things on estate taxation added by the new Code, which ought to be of interest—and I don't know how well known it is—was elimination of what is called the premium-payment tax on life insurance.

In other words, formerly if you had life insurance at the time of your death, that insurance was taxable in your estate if you retained any ownership of the policy or had paid premiums on it. Even if you didn't retain ownership, but continued up to the date of death paying premiums, that insurance was part of your estate.

When I discussed life insurance a few minutes ago, I was talking about the income tax.

In the 1954 Code the premium-payment test was eliminated, and anybody who has insurance today can give away all ownership of that insurance—say, to his wife, or son or daughter. If he lives three years, so that it can't be said the gift was made in contemplation of death, then none of that insurance will be taxed in his estate.

Q He has to pay a gift tax on it, though, doesn't he?

A He has to pay a gift tax on the value of the policy at the time of the gift, but not on the face amount—the Treasury regulations give a formula for determining value.

Q So that a man who has provided for his family by means of life insurance should consider surrendering ownership of his policies—is that right?

A That's right. For instance, suppose you are 60 years old and you have $200,000 of insurance. You have other assets in your estate. Your estate will be taxed at, say, a 30 per cent to 35 per cent rate. You can figure this rate, 35 per cent or $70,000 tax, on that insurance. Well, say your children are grown—I would give any ownership in that insurance to your son, say, so that 35 per cent of the face value won't go into the estate.

Q At what level—for estate values—does the estate tax become important to a man, Mr. Paul?

A I haven't got those brackets before me, but I would guess that the marginal rate on $500,000 is 30 to 35 per cent.

Q I mean, how big an estate does he have to pile up before he'd have to worry about it at all?

A $60,000 for the federal tax. Many States impose death taxes on still smaller estates.

Q For a single man?

A It doesn't make any difference. There's a $60,000 exemption—and he gets another $60,000 for marital-deduction bequest to the wife, so $120,000 can be exempt for a married man.

Q That's the life insurance you're talking about?

A No, that's the estate tax exemption.

Gifts That Take No Tax

Q The man can also give away—as he goes along through the years, he can give away a certain amount of money—

A Yes, you can give up to $3,000 a year to each donee—that is, if you have five children you can give $15,000 a year.

Q Your wife can give $3,000, too, so it's $6,000 a year—

A That's right, $6,000 a year, and there is a specific exemption for the gift tax of $30,000.

HOW TRUSTS WORK—

Q What are the tax advantages in setting up trusts—so many people are doing that—

A Well, there are lots of advantages, and some of them don't have anything to do with taxes.

Let me give you a simple case: Take a widower with a son and a grandson, and suppose he is worth 3 million dollars. If he leaves his property to his son, the tax at his death will be around $1,250,000, leaving a balance for the son of $1,750,000. When the son dies, another tax must be paid of around $600,000, leaving a balance of some $1,150,000 for the grandson.

Now, when our imaginary taxpayer's grandson dies and leaves the balance to his children, there will be a third tax of $350,000. Our taxpayer's great-grandchildren will receive only about $800,000 of the original 3 million dollars.

If our taxpayer leaves his property in trust instead, with

life estates to the son and grandson and what lawyers call a "remainder" to the great-grandchildren, only the first tax need be paid. Supposing economic conditions remain reasonably stable, around $1,750,000 will pass intact to the great-grandchildren. That means there will be a saving of nearly 1 million dollars in taxes by the use of the trust device.

Q There is a tax when he creates the trust, if it's an irrevocable trust—

A There's a gift tax then. But we were talking about testamentary trusts.

Q That's right—

A Well, if he wanted to give away his 3 million in trust during his lifetime, the tax cost would be lower still. As to the gift tax: In a few years he could build up a trust for his minor grandson through excluded gifts, without paying anything in taxes. He could set up a trust and put in $3,000 a year, or $6,000 a year if his wife were living so that he could split the gift with her.

More Money for the Children

Q But the main point is that the cost to the taxpayer of the gift tax when he sets up a trust—say, for $500,000—is much less than the cost of paying an estate tax if he had let the $500,000 pass through his estate—

A That is correct. The general formula is that the gift tax rates are about 75 per cent of an estate tax. But that formula is probably really too high, because there are other advantages, too.

Q Can he set up a trust for his children and still get the income from that trust for himself? I mean, during his lifetime—

A No, if he wants to minimize transfer taxes by gifts to his children, the trust has to be irrevocable for at least 10 years.

Q Is there any tax reason why you can't make a trust beyond two generations, or is that a law reason?

A That is just a matter of property law—what they call the rule against perpetuities—it varies in the various States.

Q If I'm in a fairly high bracket and I reduce not only my estate tax but my income tax by transferring some of my property to a trust for my children, so that they get the income from the trust, and it's taxed at that low rate, does that work out? Is that a fair device?

A It's a perfectly fair device from the tax standpoint if you really make an irrevocable trust—then you can't get back the property you put in trust and you don't have any interest in it for a period of 10 years. But a person ought to think of something besides taxes in connection with these matters—for instance, the effect on the children, which has nothing to do with taxes.

Q To what extent can a person do that and continue to manage the property himself?

A There are pretty liberal rules on that point: You can be trustee yourself, you could change the investments and—

Q I wouldn't, as trustee, have to pay out any more to my children in income than I wanted to, either, would I?

A You can accumulate the income for the children, but—

Q Can you use it for your own?

A You couldn't use it for your own—that would make the trust income taxable to you.

Q Can you revoke it then, would you say?

A You could make the trust revocable at the end of 10 years, yes.

Q Would you get the money back then?

A Yes, that's the way the Code draws the line on those trusts.

Q However, wouldn't some of these arrangements we were discussing as to estates and gifts both, if followed out as suggested, sometimes unwittingly throw you at the mercy of State tax systems?

A Well, nobody ever advises any of these arrangements without consulting both State and federal laws.

Small-Business Dilemma

Q Getting back to some of these corporation matters, would you say that the small companies in the United States—most of them—would be benefited if they had some form of tax advice in the handling of their books?

A By small companies, you must mean very small—

Q Very small companies—anything from filling stations to retail stores, and businesses of that sort.

A Many of them would. On the other hand, if many of them went to a tax man—a good, conscientious tax man—he'd make them pay more tax than they're now paying.

Q What about the larger companies?

A The larger companies are very well advised. They have numerous tax staffs—some of them very good men. Very good lawyers have come on their tax staffs because, for one reason, they can get the benefit of various pension-trust arrangements, and similar advantages that the average practicing lawyer can't have.

"HELP WANTED: TAX EXPERTS"—

Q To what extent do the banks help process tax returns in this country?

A I don't really know, but it takes a lot of time to build up personnel who really know about taxes. The field is growing so rapidly—the field that needs tax advice. There is constant reshuffling of the tax laws, new provisions all the time—from year to year. It is like "Alice in Wonderland": You are running like mad all the time and you are just staying in the same place. You just can't educate men on taxes fast enough.

Q Do you see any end to the increasing complexity of taxes?

A Well, I hope the 1954 Code is a sort of plateau for a while. There's no end to complexity, really, because you're trying to do two things: You're trying to give relief to deserving situations, on the one hand, and, on the other, you're trying to keep people from avoiding their taxes.

So, when you put in revisions to accomplish those two results, you're simply bound to have complexity. Then you're trying to fit your tax structure to an economy that's constantly growing more complicated, and you've got to have a degree of complication. I think it's just a dream that taxes will become as plain as the Ten Commandments.

Fewer Lawsuits in Britain

Q We always hear that the British authorities are easier on tax settlements—

A The British don't have much litigation. The British leave everything to commissioners—the administrative authorities. Not everything, but a great deal more than we do. But I should

(Continued on next page)

. . . "Many taxpayers are not taking advantage of deductions"

doubt whether the American taxpayer would be satisfied with that system. Canada is a much simpler country, anyway.

Q A smaller country—

A Smaller country—it doesn't have the business complications that we have.

Q Maybe the courts are litigating tax cases in those countries, but the taxpayers can't deduct litigation expenses—

A That is a good point—I don't know what lawyers would do without that provision.

Q Legal cost is deductible—it's deductible to a company, and to an individual too?

A Yes, it is deductible by an individual—yes, indeed.

Q Isn't the real reason for the complexity that the rates are so high?

A I've been through this since 1920, and there was quite a lot of complexity. You remember in 1928, when the rates were at a sort of "dream" level. Well, we had a lot of complexity—everybody protested—and they supposedly then, in 1928, revised the laws to make them simpler.

Q Tax-litigation costs are deductible; what about tax advice?

A Tax advice is deductible.

Q I'm not talking about a corporation, I'm talking about an individual—

A Yes, I am, too.

Q If a man gets somebody to make out his tax return and pays him $5, that $5 is deductible?

A Oh, yes. It isn't fully realized that the provision is very much broadened in the 1954 Code. For instance, the Supreme Court held that the cost of legal advice in contesting a gift-tax assessment is not deductible—I think it was the Lykes case. That rule is now practically reversed.

Q The lawyers got that in there, did they?

A Well, I didn't have anything to do with it, but it eases the burden of legal fees on taxpayers.

Q There was one point on insurance: Is there any advantage for the beneficiary of a policy to leave the money with the company and take it in installments?

A There is and there isn't, but the provision is so complicated that I wouldn't attempt, offhand, to describe it. There can be quite an advantage in having the proceeds of insurance paid in installments.

Q I thought there was one simple way that gave the widow—

A Yes—you remember the interest element I mentioned earlier as being the taxable portion of an installment of insurance proceeds. The first $1,000 of that interest annually is not taxed to a widow, or widower, for that matter.

Where Business Slips Up

Q Now, going from individual taxpayers to corporations: Do you think there are many corporations in this country which are not taking advantage of deductions or exemptions?

A Yes, there are some, but nowhere near as many, relatively, as there are small taxpayers not taking advantage of deductions.

Q Why is it that any business wouldn't take advantage of tax deductions?

A Well, the head of the business might have poor advice, or there might be an abstruse point on which their auditors or their treasurer or their auditing officers or attorneys failed to advise them.

Q To digress a moment, are there many companies that are making money out of the Government by overpaying their taxes and getting a 6 per cent investment?

A No, I don't think so.

Q There used to be some that did that deliberately—got 6 per cent on their money—

A Well, that was in the '30s when it was hard to make money even when you had money, but nowadays I think very few people make that choice. And, also, remember that it is not so easy to get your money back from the Government. No, I don't think very many business executives would make a payment to the U. S. Government just for the 6 per cent rate of interest.

I tried, when I was in the Treasury, to cut that rate down, and I was advised to leave it alone, because refund claims resulted in more tax for the Government than the refunds paid out, because the rule sharpened the eyes of auditors. Generally speaking, if a billion dollars' worth of refund claims are filed, the Government will be paid more tax by reason of the auditors' returns than will be paid to taxpayers by way of refund.

HOW U. S. TREATS YOU—

Q You've been on both sides of the fence—you've been in the Treasury in charge of tax matters and you've been outside the Treasury as a tax lawyer. Would you say that the taxpayer gets a good break out of his Government, or not? When he gets into a dispute, I mean—does he get fair deal from his Government?

A Generally, he does, but there are conspicuous exceptions. Generally, he gets a pretty good deal. For instance, he gets a chance to confer with the administrative people about his tax. They give him plenty of opportunity to argue with them. He gets—as a matter of right—an appeal to the Tax Court; or he may pay the tax and sue for a refund.

One conspicuous exception was a case in which a tool grinder earning less than $3,000 a year was denied dependency credits for the children of his disabled brother, in spite of the fact that he had been supporting the brother's family from his own meager income. The judge who heard the case in the Tax Court said it was difficult to understand why some representative of the Commissioner had not troubled to learn the facts and approve the deductions, so that the taxpayer could have been saved the expense of trying a case which should never have arisen.

Q Aren't there long delays in disposing of those cases?

A Yes, but I would say that the delay is as often sought by the taxpayer as by the Government. Here and there you get a case where the Government is stubborn. I've known issues where we've gone to court and it's taken six or seven years—maybe longer—to get a disposition.

All through that period, of course, there's been anxiety. An amount of money may be involved which could wipe the taxpayer out. But you can't decide these complicated questions overnight. I can say that, generally, the Government gives pretty good opportunity to argue out questions.

Cheaper to Settle Than Argue?

Q Aren't there many instances where a company, rather than have a tax dispute, considers the amount of the costs of litigation and pays the tax which it might not have had to pay if it had gone to court?

A That's the trouble with small cases. It is true that, if the amount is not large, it can be proportionately costlier to litigate than to settle.

Q Does the Government get a lot of money it's really not entitled to?

A I don't know. There is no way of getting statistics on that, and, of course, if no court has yet decided a point, it's not known whether the Government is entitled to the amount in dispute.

Q As a practical matter, can a small taxpayer go through the Tax Court without a lawyer and have a chance of winning his case?

A Some taxpayers do, once in a while. Usually it is better to have representation. The general principle is that a man should never represent himself. That is true in any court.

Q But he can't really try the case in court—

A Oh, yes, he can go in there—

Q It would cost him too much, more than he paid—

A Well, if the taxpayer hires a lawyer and the sum is very small, he will pay a lot in relation to the amount involved—I'll say it that way. Of course, all lawyers take some of these small cases as a sort of public service. Or the taxpayer can go in himself and answer the court's questions. And I will say this for the judges in the tax courts, that when a man comes in there representing himself, they try to see that he gets a fair break.

The Fighting Schoolteacher

Q He doesn't have any heavy expenses in that case, does he?

A No. He has to pay a $10 docket fee and he may have to get witnesses subpoenaed, but, practically speaking, very little.

Now, on the other hand, I have in mind a case—some schoolteacher down in Virginia who took the deduction for the cost of—I think she was going to Columbia University's summer school, which she had to do to keep her certificate for teaching. The tax involved was about $55. That case went up to the fourth federal circuit at Baltimore. There the cost of getting a transcript of the record and various other litigation costs were more than the tax.

Q Did she win?

A She won on appeal. But, in spite of the expense to her, the case must have been of help to a lot of other schoolteachers in America.

PROSPERITY DESPITE TAXES—

Q We often hear it said that business is prevented from expansion by reason of taxes. What are the things in taxes that keep business from expanding?

A American business is not a house of cards which a slight gust of wind—or high taxes—can blow away. I do not like high taxes, but I must admit that work and investment incentives have remarkably survived the high taxes of the last 20 years. As Professor Alvin Hansen said, we have an "Alice in Wonderland" economy in which the more we spend for defense and the higher our taxes go, the more we seem to have left for investment and consumption.

Q What I was thinking of particularly was this type of thing: You have a small, closely owned corporation; you have over here a larger company to which that small-owner company would like to sell out in order to retire its executives and give its owners a fair amount of money in their old age. Under our tax laws, aren't there impediments to those mergers?

A No, those mergers are made quite easily under various tax provisions. And, furthermore, the owners of the small business can sell to a big company when they get to the retirement age and get a capital gain on the profit from the sale.

Q That's one of the advantages?

A Yes. In fact, if anything, there are people who suggest that the tax laws tend toward monopoly in that respect.

Q Because they permit the sale of the smaller company?

A That they encourage people to sell their smaller businesses to the larger companies and take advantage of the differential capital-gains rate.

Q Aren't the reorganization laws, as they call them, rather strict, so as to prevent companies that would become natural mergers—

A The Tax Code is pretty liberal.

Q What do they now permit companies to do that many of them perhaps don't know about?

A Well, the rules been somewhat further liberalized, incidentally, by the '54 Code.

They permit mergers, for instance, of two companies, and distribution of securities in the merged companies to the stockholders of the two companies merging, without any tax at all.

Q Do you think that's a good thing?

A I think it is, yes. You just change the form of the investment that you had in one company so that it is invested in another company which is, really, two old companies. And the reorganization rules encourage legitimate business transactions by allowing them to take place without any tax—or with a moderate rate of tax, perhaps a capital-gains tax.

Q Does the new law encourage some merging in the case of loss corporations?

A There is a question whether there can be a carry-back of loss on a merger of two corporations. Nobody can tell you the answer to that question now. You asked: Does the law encourage merger of loss corporations? Well, that's a very pointed question.

Q Two companies at a loss want to get together and see if they—

A The Congress was trying to get at this business of selling loss corporations. That was a legitimate purpose to prevent tax avoidance. So a line had to be drawn, and where the line has been drawn is almost impossible to say. In other words, the statute may be good grammar, but it's not always completely understandable.

WHO PAYS HIGH RATES—

Q Mr. Paul, have you ever had occasion to consider what percentage of the average man's time or income is devoted, directly or indirectly, to, in effect, working for the Government, federal, State, local?

A Well, I would answer that question by saying, first, that it is impossible to give any meaningful average figure. The most striking feature of our present income tax system is the disparity between the tax treatment of different groups in the population.

(Continued on next page)

. . . "There is discrimination against the salaried man"

The basic rate structure set forth at the beginning of the Internal Revenue Code—and particularly the higher portion of that rate structure—is being eaten away by preferences or erosions created for the benefit of one special group or another. The rest of us—by and large, the wage and salary earners and the conscientious independent business or professional men—go on paying these high rates of tax.

Let's take a look at high incomes generally: I happen to have made an investigation recently of how high real rates are under the 1954 Code. If you will look at the Code, you will find that scheduled rates start at 20 per cent and go up to 91 per cent. A single man is supposed to pay 89 per cent on every dollar of income he receives over $100,000 a year.

Rates Not as Tough as They Look

That rate looks terribly high. But, if you examine a Treasury publication called "Statistics of Income," you will find that these same taxpayers are actually paying 48 to 56 per cent in taxes on their so-called adjusted gross income. And that is before you make allowance for a number of deductions, like percentage depletion, before you allow for income on tax-exempt bonds, before you count in accumulations of wealth in corporations on which the individual stockholder pays no tax.

Remember, too, that adjusted gross income includes only half the taxpayer's capital gains. If you add back the other half of capital gains and make a rough allowance for some of these other items of untaxed income I mentioned, then figure the effective rate of tax again, you will find that taxpayers with $100,000 of income a year or more are actually paying in taxes substantially less than 45 per cent of their annual increment in wealth.

So, to answer your question: First, there is no average man when you come to figure how much of a citizen's time or income is devoted to working for the Government, and, second, the rates of tax set forth in the Code are only theoretical, not actual, indicators of the proportion of income of higher-bracket taxpayers which really goes to the Government.

High-bracket taxpayers aren't complaining about their special treatment, a fact which partly explains your earlier question about how funds are to be provided for new investment. If wealthy people were paying the rates set out at the beginning of the Code, there might be a serious problem of getting funds for investment. The reason there is no such problem, I think, lies largely in the fact that people just aren't paying these rates.

The Victim: Man on Payroll

Q How about the man who is getting 5 million dollars in income and says he has only $500,000 left after taxes?

A If you'll examine the case you'll possibly find that he doesn't have good tax advice.

Looked at from one point of view, this situation may be beneficial, because we have a theoretical set of rates that makes the people who like high rates satisfied, but most people don't pay those rates, so the high-bracket man is satisfied, though he may not admit it, and we have funds for investment—which we need for the economy.

Now, those who get stuck are the self-employed and many salaried men, because there's not very much they can do. Their tax is withheld at the source and, except in very limited ways, they can't take advantage of all these gadgets.

Q What about the man getting the so-called guaranteed annual wage? Do you think that's going to present a problem in taxation?

A Possibly.

Q If a man gets that it would be income, wouldn't it?

A I don't know, but I think there are going to be some problems on that point. But the man against whom there is primary discrimination in America today as a taxpayer is the low-income salaried man and the high-income salaried man—who can't take advantage of these gadgets. They are paying those rates in the beginning of the Code.

Q That's why the answer is more assistance, employe pensions, stock options, and things of that sort? On stock options he gets capital gain—

A Yes, when he sells the optioned stock, but I previously explained how the stock-option provision was available only to those people who were working for listed companies.

Q They're available, but you said there are certain risks—

A Practically, they're not available to employes of unlisted companies.

"WORKING FOR UNCLE SAM"—

Q The money he's going to use to exercise his stock option very probably is money he had to earn on a taxable salary in the first place—

A That's right, he never can accumulate anything. So, answering your question, I'd say, if you count all increase in wealth, the higher-bracket people are working about 40 or 35 per cent, or less, of their time for the Government, and the low-bracket man is working from 10 per cent on up.

Q But the salaried man who gets a higher income, a single man earning $25,000, is paying a lot of tax—

A Yes, that is exactly my point. A lot of high-salaried and self-employed people probably pay a high effective rate of tax.

Q You just said that the man who is discriminated against is the low-income salaried man and the high-income salaried man—how about the middle-income salaried man?

A Any salaried man—you can go across the board on that. Unless he's in a position to take advantage of some of these tax-avoiding gadgets.

Q Yes, but if he has some savings he can do certain things in the market—he can get capital gains, as far as that goes—

A If he has some savings. You'll find a lot of complaints even among high-salaried people today that they have a hard time accumulating any savings—unless they have inherited some money.

Q Mr. Paul, the tax administration over which you presided sometimes has been compared in its approach to the taxpayer with that we have today. Do you have any opinion as to whether the federal tax collector today is any more considerate of the taxpayer than he was a few years ago?

A I think he's been pretty considerate, on the whole, all through. I wouldn't be able to make a comparison. But I think that the average tax man in the Government who has the contact with taxpayers and their representatives is a pretty considerate person.

For a point-by-point report on ways to minimize taxes, see page 28.

THE MAN ... Nelson Rockefeller **THE NEWS ... A Plan That Lost**

Foreign Aid vs. Budget: Old Fight, New Casualty

Moderate caution has won the day over a policy of massive, flexible foreign aid. That is why Nelson Rockefeller, long-time dispenser of money to other countries, is leaving the Government.

—United Press

THE RESIGNATION of Nelson A. Rockefeller as a Special Assistant to the President points up a continuing problem and an old, hush-hush argument within the Eisenhower team.

The problem and the argument have to do with foreign aid—economic assistance to potential allies in the "cold war," how much should be spent and how rapidly. It is a lively subject in Congress, too. There always is a battle at the Capitol to hold down appropriations for this purpose.

For years, Mr. Rockefeller has been an ardent advocate of bold, imaginative programs for the economic development of backward areas. He wanted to go further and faster—especially with Russia moving aggressively into this field—than did the Administration's budget balancers. He lost out in his fight.

Mr. Rockefeller, 47, is a Republican who in the last 15 years has held important posts in the Roosevelt and Truman Administrations, as well as that of Mr. Eisenhower. Often these jobs involved some aspect of helping other nations.

As a presidential assistant, Mr. Rockefeller's job was that of a personal adviser and idea man for Mr. Eisenhower in the field of cold-war strategy, psychological warfare and, especially, the use of economic assistance. He sat with the Cabinet and National Security Council. Ultimately the argument over foreign aid reached those high levels.

The split. In his insistence on a big economic-assistance program, Mr. Rockefeller had important allies. They included Harold E. Stassen, presidential adviser on disarmament. Vice President Richard M. Nixon, since his tour of the Far East, reportedly has been helpful. There was strong support, too, from Paul G. Hoffman, the first dispenser of Marshall Plan aid and now an influential, though unofficial, presidential adviser.

This group has had strong opposition, however, from George M. Humphrey, Secretary of the Treasury, intent on balancing the budget; from John B. Hollister, now in charge of foreign-assistance operations, who has followed an economy slogan; from Herbert Hoover, Jr., Under Secretary of State, and Rowland R. Hughes, Director of the Budget Bureau.

There is no disagreement now over the need for a foreign-assistance program. Where Republican leaders once hoped eventually to abolish it, present officials accept the theory that there must be such a program for the duration of the cold war, at about the present level of annual expenditures. The differences are matters of emphasis and amount of spending, of the types of programs to be approved.

Mr. Rockefeller and his colleagues consider foreign assistance a good thing in and of itself, especially in the face of current moves by Russia. Their opponents do not share that enthusiasm, tend to hold the program down in size, tie it up with provisos that make it "economically sound" but, the complaint is, too rigid, too inflexible.

Where disagreement came. The Rockefeller group had ideas that the budget balancers simply thought too ambitious.

One of these was an argument that foreign aid should become an integral part of long-range policy. The contention was that nothing tangible would be accomplished so long as planning, by re-

(Continued on page 74)

—United Press

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. . . Rockefeller training: be frugal, but help others

quirements of the budget, had to be confined to one to two years in advance.

It was argued that the cold war the Russians are pushing would be waged "for a hundred years if necessary," and that the U. S. must be prepared to deal with the threat on a permanent basis. It was proposed that the disbursement of foreign aid be given departmental status in Government, and that problems in the field be solved in much the same way that military and diplomatic decisions are made.

Mr. Rockefeller and his allies also wanted spending to be bigger, although no specific amounts have been mentioned, and more flexible, with ample unobligated funds to meet emergencies wherever they might arise. They deplored, too, congressional reluctance to make appropriations and what was considered Mr. Hollister's reluctance to spend them.

Private Point Four. Mr. Rockefeller, with ideas already well developed, came into the situation a year ago. At that time, foreign-aid expenditures had been in a steady decline for several years. That drop now seems to have been arrested for a few years ahead, at least.

Mr. Rockefeller's interest in helping undeveloped areas improve their standards of living had been high for years. It had been aroused not only by his Government experience in that field, but also by the Standard Oil Company's activities in South America. He and his brothers, grandsons of John D. Rockefeller, Sr., founder of the family oil fortune, have been financing what sometimes is called a private Point Four program in Brazil and Venezuela.

The Rockefeller brothers were reared in wealth and frugality. Childhood allowances were sharply limited and a percentage had to be saved, another given to charity. At Dartmouth College, young Nelson was given $1,500 a year to cover all expenses, including tuition, savings and charity.

While some classmates had automobiles, Mr. Rockefeller, attired usually in corduroys, pedaled a bicycle about the campus. He was graduated near the top of his class, with Phi Beta Kappa honors. A graduation thesis defended his grandfather against charges leveled by some biographers at the latter's methods.

For several years, Mr. Rockefeller was a clerk at the Chase National Bank, afterward joining his brothers in the management of the Rockefeller fortunes. As a director of a Standard Oil subsidiary in Venezuela, he insisted that the company had a responsibility to that country, and set up a program encouraging local industry and subsidizing schools and hospitals.

In addition, Mr. Rockefeller served as director and for several years as president of Rockefeller Center, Inc., the famous skyscraper group in mid-Manhattan. As director of rentals, he was so successful that neighboring office buildings sometimes lost most of their tenants. Owners of these buildings then criticized Mr. Rockefeller with charges reminiscent of those once hurled at his grandfather.

Washington career. Mr. Rockefeller entered the Government in 1940 as head of an agency which, with the coming of World War II, had several titles and eventually became the Office of Inter-American Affairs. Its wartime function was to counter German propaganda in South America, keep the Latin-American nations loyal to the Allied cause by a variety of means, including assistance for economic development.

Later, President Truman tapped him for service as Assistant Secretary of State for inter-American relations and then appointed him chairman of a board to make recommendations on implementing the Point Four program. Under President Eisenhower, Mr. Rockefeller served on a committee to review plans for streamlining the Government and for a year and a half was Under Secretary of the new Department of Health, Education and Welfare.

As a presidential assistant, Mr. Rockefeller served without pay. Young, buoyant, filled with energy, he worked usually seven days a week. His contribution to cold-war policy is described as a constant, continuing one. He also is credited with helping develop Mr. Eisenhower's proposal for an atomic "peace ship" and his plan for "open sky" inspection of nations from the air.

The success of his work was dependent on a close and continuing personal relationship with the President. This became impossible after Mr. Eisenhower's heart attack. Mr. Rockefeller also found himself without authority and discovered that there was resentment when he tried to advise agencies operating in his field. Meanwhile, he also was under pressure to return to family business affairs.

Plea that failed. On December 5, Mr. Rockefeller visited the President at Gettysburg—their first meeting since Mr. Eisenhower went to Denver in August. As some reconstruct the story, Mr. Rockefeller made a plea at that time for his sort of foreign aid. This was repeated at a subsequent meeting of the National Security Council at Camp David, Md. The decision went against him.

Now Mr. Rockefeller is returning to New York, where there always is work for a Rockefeller to do. But the controversy in which he was a central figure continues and may continue for years to come.

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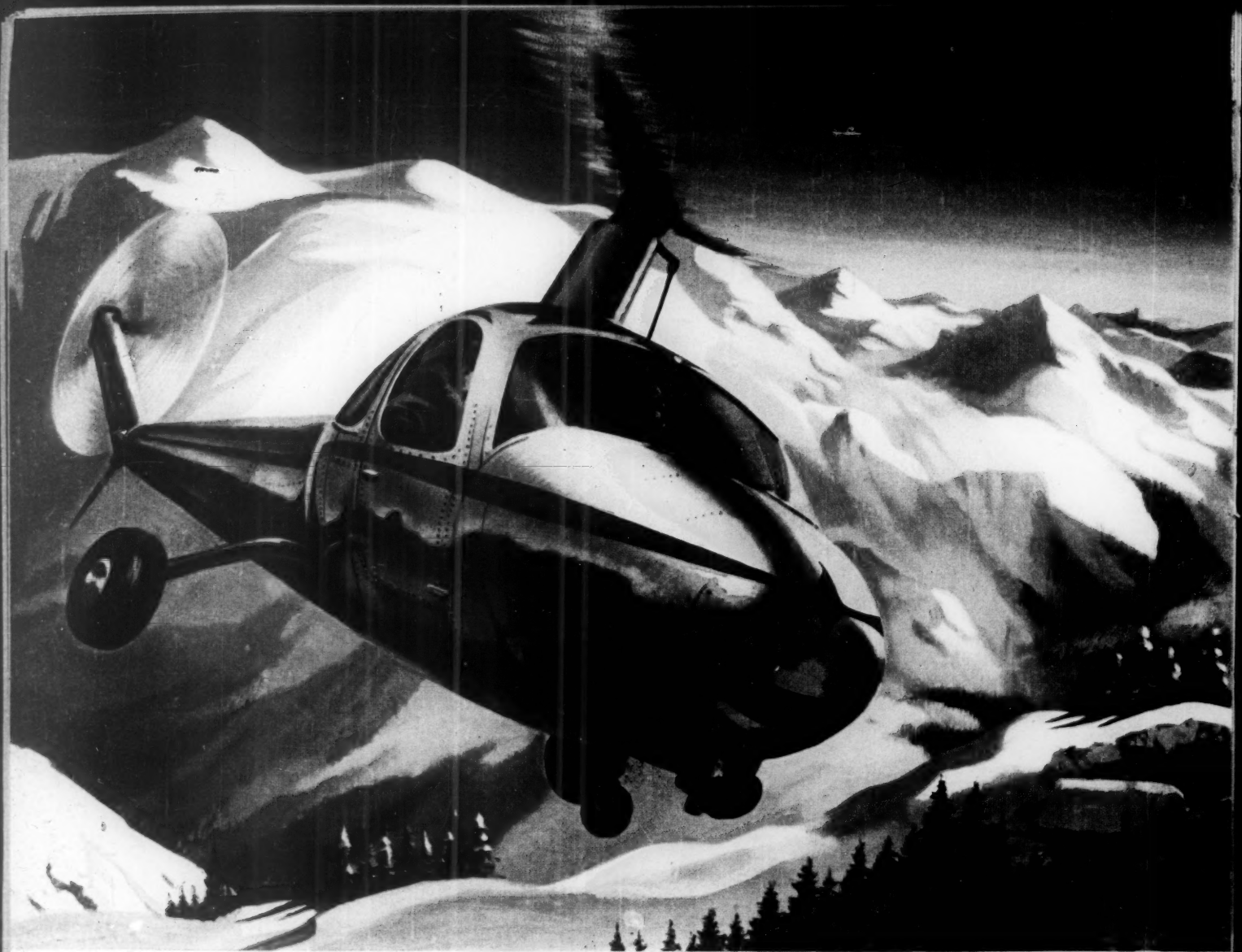

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Five Stars Again for Ike?

Rank and Army Pay Could Be Restored

When Mr. Eisenhower resigned from the Army to run for President, he did not lose claim to rank of General of the Army. He can get back his rank when he leaves the White House.

The next President can reappoint him. Or Congress, with a new law, can re-create him a General of the Army.

For Ike, this would mean pay of $22,943 a year for life.

This question now is being asked: Can President Eisenhower, if he does not run for re-election, regain rank—and pay—as a General of the Army?

The answer: Yes—but Congress will have a voice in the action.

Two ways, at least, are open to make Mr. Eisenhower a five-star general again.

- The President's successor in the White House, if Mr. Eisenhower should bow out after 1956, can reappoint him a General of the Army under the same law that originally gave Ike five-star rank. This appointment would have to be confirmed by the Senate.
- Congress can pass another law to make Mr. Eisenhower a General of the Army. The bill would have to be signed by the President.

Existing law says this: ". . . the President is hereby authorized, by and with the advice and consent of the Senate, to appoint to the permanent grade of General of the Army any individual who shall have served in such grade after December 14, 1944, and before August 14, 1945 . . ."

Mr. Eisenhower was a General of the Army between those dates. He is qualified for appointment—and the law places no time limit on the appointment, includes no ban against reappointment.

Co-operation of Congress and the next President would be required in order to reappoint Mr. Eisenhower, no matter which of them might originate the appointment. Many politicians in Washington feel that this co-operation would be forthcoming.

A third way by which Mr. Eisenhower might regain his rank is causing argument. That way is for him to apply, through normal Army channels, for reinstatement. Officers of lower rank sometimes are reinstated but, in Mr. Eisenhower's case, Army legal officers disagree on this point:

Would Mr. Eisenhower be ruled out by the age limit of 64 and the health examinations required of general officers? Or did his unusual, lifetime rank put him above these rules?

At present, Mr. Eisenhower is just as much a civilian as if he had never spent 37 years as a commissioned officer. Upon receiving the Republican nomination for President in July, 1952, he resigned, severing all connections with the Army.

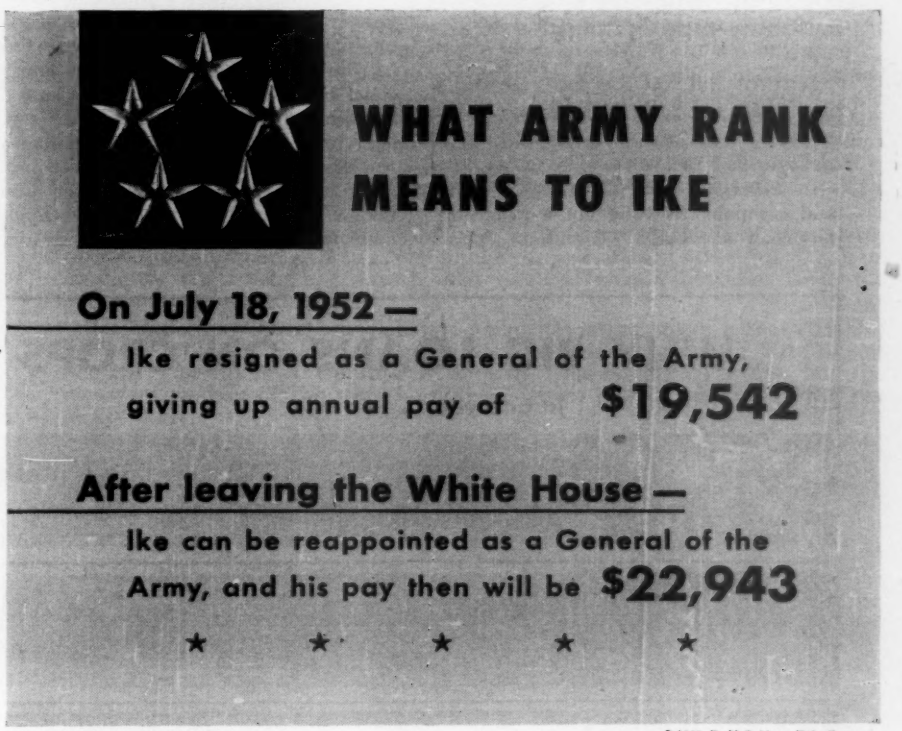
What he gave up, by resigning, was a job for life.

The grade of General of the Army was made permanent by Congress in 1946 to reward General Eisenhower and three other Generals—George C. Marshall, Douglas MacArthur and the late Henry H. (Hap) Arnold. In 1950, Congress voted the same rank to Gen. Omar N. Bradley.

Full pay—not just the partial pay of a retired officer—goes with this rank, even if the five-star general is retired, or on inactive duty. When Mr. Eisenhower resigned, his pay was $19,542 a year, partly in tax-free allowances.

If Mr. Eisenhower becomes a General of the Army again, he will get $22,943, as there have been recent raises in pay for people in the armed forces.

Actual pay, subject to tax, is $15,317 a year. Allowances for housing and food, totaling $2,626 a year, are exempt from income tax. In addition, a five-star general gets $5,000 a year as a "personal allowance." This amount is "excludible" from income, under present tax laws, and does not even have to be reported.


WHAT ARMY RANK MEANS TO IKE
On July 18, 1952 —
Ike resigned as a General of the Army, giving up annual pay of $19,542
After leaving the White House —
Ike can be reappointed as a General of the Army, and his pay then will be $22,943
★ ★ ★ ★ ★

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A General of the Army also is entitled to a staff of eight Army aides—a colonel, a lieutenant colonel, a major and five enlisted men. The practice among five-star generals, however, is to employ only two or three.

As a retired President, Mr. Eisenhower might find all eight aides useful in dealing with heavy mail, many callers.

In addition to a staff, a General of the Army is provided with an office, at Government expense.

That is what it is worth to be a General of the Army. And the way is open, if Congress and the next President are willing, to transform Mr. Eisenhower from an ex-President to a General of the Army when the time comes.

Special Report

(This article represents the result of an extensive research on a problem of outstanding importance.)

NOT ALL FARMERS ARE IN TROUBLE

King-size crop loans to big farmers are coming under scrutiny. Yearly payments to one company-owned farm have topped 1 million dollars.

The big question: Are factory-style farms getting too much federal protection, becoming a threat to family-type farming?

It turns out, on the basis of statistics, that not all farmers are little farmers, hard up and struggling to make ends meet.

In Mississippi, for example, one big land company in 1954 got a price-support loan of nearly 1.3 million dollars from the Government. Since the market price was below the "loan" price at the end of the marketing year, the company kept the money, turning the cotton over to the Government to pay off the loan. No interest was charged on the loan, under federal law.

Thus, in reality, the loan was income to the company. The crop had been "sold" to the Government.

In the same year, a Montana wheat-grower was given the same kind of loan totaling more than $400,000; a grower of corn in Iowa got a price-support loan of close to $180,000, and a company in Louisiana put up rice as security for a loan of nearly half a million dollars.

Those are exceptions, but, with other cases, they are beginning to get attention in Congress and within the Department of Agriculture. Ideas are advanced for setting up a fixed maximum on loans made in support of prices.

Ezra Taft Benson, Secretary of Agriculture, is interesting himself in this whole question of king-size loans for the large, factory-type farms. He has indicated he will have some recommendations on this for Congress to consider when it returns in January. Though his proposals have not been spelled out, it is understood that a limit of $25,000 a year on loans to any one farmer has been discussed by Department policy makers.

A $25,000 ceiling on price-support loans has been proposed in half a dozen plans submitted to Congress by Democratic Congressmen from farm States.

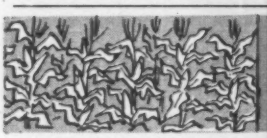
Another proposal now is offered by Senator Paul H. Douglas (Dem.), of Illinois. He suggests that each farmer should get income protection from the Govern-

WHY BIG LOANS ON CROPS ARE AN ISSUE

In one year—

LARGEST COTTON LOAN went to a Mississippi grower — **$1,292,472**
Average cotton loan in U.S. was — **$268**

LARGEST WHEAT LOAN went to a Montana grower — **$ 430,691**
Average wheat loan in U.S. was — **$1,810**



LARGEST CORN LOAN went to an Iowa grower — **$ 179,127**
Average corn loan in U.S. was — **$1,956**

LARGEST RICE LOAN went to a Louisiana grower — **$ 486,726**
Average rice loan in U.S. was — **$7,784**

Note: Figures are for 1954 crops; loans still being made on 1955 crops.

BIG LOANS, to a few farmers, are raising this issue in Congress: Does the farm program help big farmers too much? Should a limit be placed on the size of crop loans available to any one farmer?

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ment only on the first $7,000 of his production, which the Senator calculates was about the amount of products sold by the average farm in 1952.

Under the Douglas proposal, the "Brannan plan" idea—letting prices drop in the market place and paying the farmer the difference between market price and support price—would be used. A limit of $2,000 would be placed on the amount paid to any one farmer. This means that if the market price on $7,000 worth of produce slipped to any point between $7,000 and $5,000, the farmer would get the difference. But if the market price went below $5,000, the farmer would get $2,000—and no more.

Still another plan calls for "adjusted price supports." This is offered by Senator W. Kerr Scott (Dem.), of North Carolina. Under this plan, the more a farmer produced, the less help he would get from the Treasury. On wheat, for instance, the price-support loan to the farmer on the first 1,000 bushels would be relatively high. On the next 500 bushels, he would get a somewhat lower support loan, and so on down the scale.

Government takes risk. Supporters of proposals to clamp a lid on Government aid say the present policy of unlimited loans for price support gives farmers with large operations too much help. Farming, they point out, is a high-risk business in which prices fluctuate widely if the market is left free. Under the present program, the Government, in effect, is taking this risk for farmers—including the big operators—by guaranteeing them a certain price.

Setting a limit on the volume of products that any one farm could put under the Government price umbrella, it is argued, would discourage the present practice of producing huge crops to "sell" to the Government. This, in turn, would slow the rush of surplus farm products into storage.

Factory farms. Just how big are some of these factory-type farms—those for which Government price protection would be limited under the proposals now being considered? The Delta & Pine Land Company, which got the largest single crop loan in 1954, sprawls over 38,000 acres—nearly 60 square miles—of delta land near Scott, Miss.

Nearly 8,000 acres of cotton were harvested on this farm in 1955. It has harvested as high as 16,000 acres of cotton. In 1954, the company put 7,554 bales of cotton under the Government's loan program and got $1,292,472 for it, as shown in the chart on page 80. In 1953, some 7,220 bales of cotton went to the Government as collateral on a loan of $1,269,493.

The largest wheat loan of 1954 went to a farming company with an even bigger domain—the Campbell Farming Corporation, of Hardin, Mont. This "spread,"

(Continued on page 82)

Rockwell Report

by W. F. ROCKWELL, JR.
President
Rockwell Manufacturing Company

PUBLICITY REGARDING our two newest plants, both of which will be completed next year, has caused a number of people to ask how we decide exactly where to locate new facilities.

One of our men is fond of saying, (in male company) that choosing a plant site is much like choosing a wife: mistakes are not only costly, but extremely hard to live with. Which is why we always approach the problem with a great deal of care, and use the counsel of outside plant location specialists.

The initial steps are, of course, almost routine. The product to be made determines the plant's general specifications, labor force, utility requirements, transportation needs, etc. Location of raw materials and major markets will dictate the general area in which the plant should be located—and this area may vary from several states to a few square miles.

It is the next step which is more difficult—the screening of the general area for communities which most nearly meet our requirements. This is the point at which we employ outside plant location specialists. Communities are first measured against the tangible requirements mentioned above. Other tangibles are also examined: physical appearance of the community, transportation and recreation facilities for workers, real estate values, and tax structure.

Normally, several communities in a given area meet all of the above tangible requirements. But in the final selection of *one* community, it is an *intangible* that weighs heaviest with us: *Community attitude.* Does the community *want* industry?

The outside research specialists on plant location make a real effort to take the pulse of the communities under consideration. And that means not the Chamber of Commerce and the real estate interests, but the men and women of the town—many of whom will be our workers if we locate there.

We believe this is vitally important. It is difficult, if not impossible, for any manufacturer to operate profitably without the goodwill of the people among whom he operates. We try to locate where that goodwill exists, and then do our honest best to continue to deserve it.

* * *

Our Meter and Valve Division has condensed a considerable mass of practical information in a new bulletin on the application of various Rockwell products in sewage disposal plants. Gas meters, gas regulators, water meters, and Rockwell-Nordstrom lubricated plug valves are included. A separate section discusses the various methods of remote and power operation of valves, a subject increasingly important in modern treatment plants.

* * *

Sales of the Rockwell-Ohmer noiseless electric taximeter have snowballed since its introduction a little over a year ago. While some taxicab operators are replacing mechanical with electric meters each time a new cab is bought, others are converting entire fleets at one time to electric metering.

* * *

Five new permanently bound books have been added to the extensive Deltacraft Library, published by our Delta Power Tool Division and sold through Franchised Delta Dealers. Deltacraft Books are written to help home craftsmen get the most out of their power tools, and to give them plans and ideas for workshop projects. One of the new books, "Practical Finishing Methods," is unusual in that it begins where power tools leave off. It is said to be one of the most comprehensive guides to woodwork finishing techniques.

One of a series of informal reports on the operations and growth of the

ROCKWELL MANUFACTURING COMPANY
PITTSBURGH 8, PA.

for its customers, suppliers, employees, stockholders and other friends

Steel framework for new railroad loading dock built for BALL BROTHERS COMPANY, Muncie, Indiana

CARL VESTAL COMPANY, Indianapolis, Indiana: Erectors

LAWRENCE J. SNYDER COMPANY, Muncie, Indiana: Contractors

INTERNATIONAL STEEL COMPANY: All structural steel, galvanized beaded sheets on roof and sides.

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COMPLETELY INTEGRATED SERVICE — from preliminary planning to final delivery on the job — is the kind of "profits insurance" you can bank on from International. It's the *proved* structural steel service which won the contract for the big Ball Brothers Company rail freight project shown above. And further proof of its soundness is the similar dock just completed — built for handling truck freight — with all steel for construction again supplied by International.

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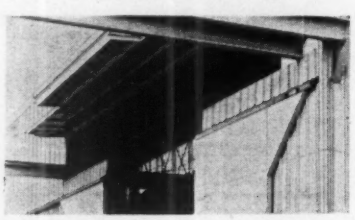
The same International teamwork is ready to go to work for you, any time you say the word — on any type or size of project. Meanwhile, you'll find it worth while to use the above coupon!



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INTERNATIONAL STEEL COMPANY

. . . Family-size farm: does it face extinction?

as large farms and ranches are called in the West, is headed by Brig. Gen. Thomas D. Campbell (Ret.), **farming** as many as 95,000 acres of wheatland in one year. The loan to his farm, on 208,881 bushels of wheat, was $430,691.

The biggest harvest of corn going under the price-support program in 1954 from any one farm was 115,566 bushels, grown on the 6,400-acre farm of Adams Brothers & Company, at Odebolt, Ia. With this corn as collateral, the company received a loan of $179,127.

Large as the loans to some of these mammoth farms are, they make up only a fraction of all price-support loans made each year. In 1953, for example, the Department of Agriculture compiled a list of those farms receiving loans of more than $100,000 on cotton, corn and wheat. There were 64. The total loaned to them was less than 16 million dollars, or about six tenths of 1 per cent of the 2.7 billion dollars loaned to all farmers who put these crops under Government protection.

There are, of course, thousands of farms that are termed "big" but that have not received Government crop loans of anywhere near $100,000. Figures just released from the Bureau of the Census show that, of the 4.8 million farms in the U. S., 134,041 took in more than $25,000 from the sale of farm products in 1954. This is nearly 30,000 more than were in this income bracket in 1950.

The basic question. Underlying all this discussion is this basic question for Congressmen and Administration leaders: Is the trend to larger and larger farms a threat to the "family farms" of the nation? The family-size farm usually is described as one on which the majority of the labor is performed by the farmer and his family.

Under the various plans to limit payments to farmers, emphasis would turn to giving principal aid to family farms. These farms, agricultural leaders say, are important to the nation not only for their production of food, but from the social standpoint as well. It is argued that these family farms, with their healthy environment and wholesome community life, furnish a source of leadership that the nation cannot afford to sacrifice to efficiency by replacing them with a few big farms manned by farm hands and tenants.

There is agreement in both political parties that it is important to maintain the family-size farm. Whether placing a limit on price-support payments from the Government can help accomplish this aim is a question that Congress will face when it returns in January.

News YOU Can Use ®

IN YOUR PERSONAL PLANNING

24th and N Streets, N.W.
Washington, D.C.

Healthy bonuses and dividends being paid at the tail end of this booming business year bring up tax problems that need to be looked into right away.

UNEXPECTED INCOME. Complications arise if an income tax estimate filed earlier in 1955 is thrown off because of unexpected income. The federal tax collector can assess a penalty against an individual who turns out to have underestimated his tax by more than 30 per cent. For farmers, it's 33 1/3 per cent. Taxpayers, though, can avoid the penalty by proper action before January ends.

TAX ESTIMATES. Note an important law change, new for 1955, that determines whether you may be subject to a penalty for underestimating your tax. You won't be slapped for a wrong guess--no matter how far off you were or how big an income windfall you got--if you figured your estimate in either of two ways: (1) If you used, as 1955's estimated tax, what your tax was in 1954; (2) if you figured your 1955 tax on the basis of 1954 income, with 1955's tax rates and personal exemptions.

FILING DATES. If you used other permissible methods for estimating your tax, a big bonus can put your guess outside the margin of error the law allows. Then you might face a penalty. You can avoid the penalty, though, if you straighten out your tax guess by filing an amended estimate. Last chance to do that is January 16. Even should you let this date slip by, there's another out that ordinarily will relieve you of the penalty: File your final income tax return by January 31 instead of April 15.

Farmers come under special rules. They needn't make a tax estimate at all if they file their return--and pay their tax in full--by February 15.

SOCIAL SECURITY. If you fail to apply for Social Security benefits you qualify for, your survivors aren't entitled to claim them. That's the gist of a decision by the U.S. Court of Appeals for the Third Circuit. Case involved a man who was mentally ill at the time he became eligible for benefits. Later he died. His executrix argued that, because he was unable to make application for them, the benefits should be paid to his estate.

The Court points out that one of the law's requirements is that the Social Security retirement benefit must be applied for--either by the individual or someone acting for him. Rights to them are his alone, and cease at his death. Other Social Security benefits are payable to his survivors.

(over)

JOINT RETURNS. The Government can't hold a wife liable along with her husband for taxes due on a joint income tax return unless she authorized such a return and actually signed it. So decides the U.S. Tax Court.

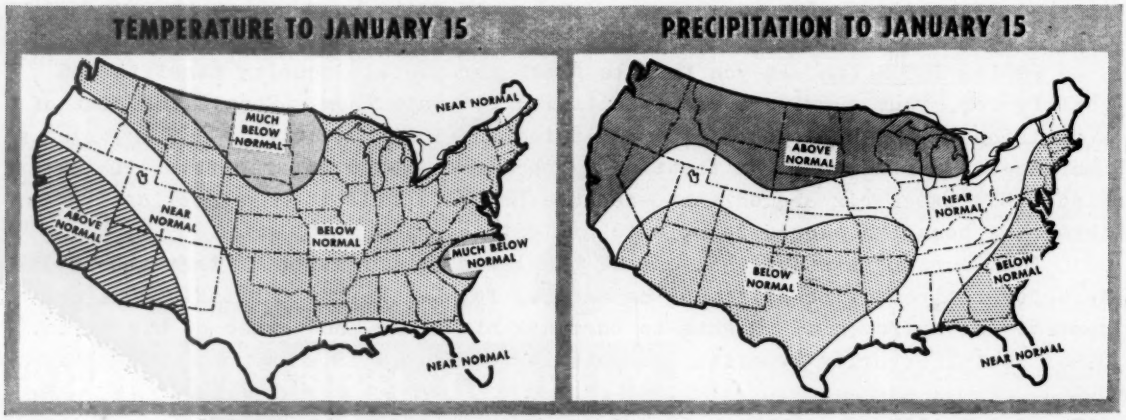
ARMY TRAINING. The Army says it isn't going to call up for a full two years' active duty all the college youths who got ROTC commissions last spring. One third of them will get active duty for only six months, then be released and assigned to Reserve units. For them, the Army says, there isn't the legal club to compel participation in weekly Reserve drills that there is for youths taken into service under the law which went into effect last August. Last spring's ROTC graduates do run a risk, though, if they ignore Reserve activities. The Army says it can take away their commissions. Also, it conceivably might call them up to serve the rest of their two years' active duty.

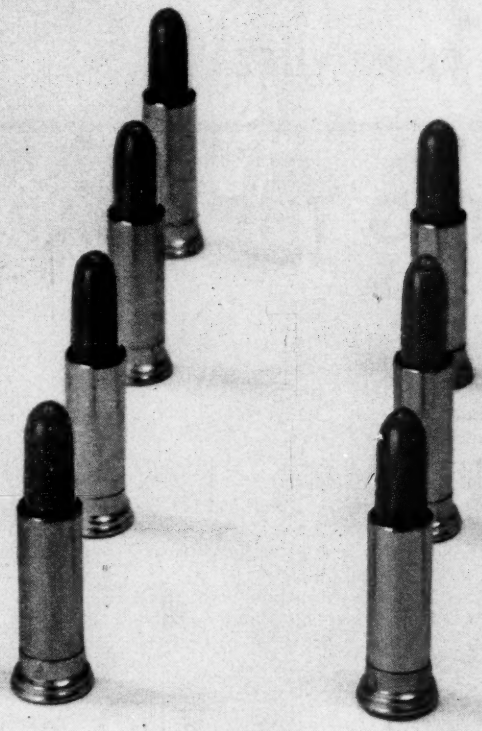
BEETLE BATTLE. The Department of Agriculture has a new leaflet for home gardeners, "Controlling the Japanese Beetle." It is available, free, from the Office of Information, U.S.D.A., Washington 25, D.C.

STORM INSURANCE. A new angle is creeping into insurance coverage you buy for your home. It's a deductible provision on losses from windstorm and hail. Works something like the $50 deductible clauses in automobile-collision insurance--you pay for the first $50 of damage and the insurance company the rest. The new provision has been recommended for adoption nation-wide by the Interregional Insurance Conference, an unofficial advisory body for the industry. Nine Northeastern States have approved its use in policies.

ESTATE INCOME. A knotty tax problem that crops up in community-property States is solved by an Internal Revenue Service ruling. In such States, property acquired by one spouse may be considered as being owned one half by the other. When one spouse dies, IRS says, the estate is not regarded as including all the community property. Therefore, income from the property should be divided for federal income tax purposes. Half would be reported by the surviving spouse, half by the estate.

WEATHER. Winter's colder-than-normal grip on much of the nation is to continue at least to mid-January, the Weather Bureau's outlook indicates:





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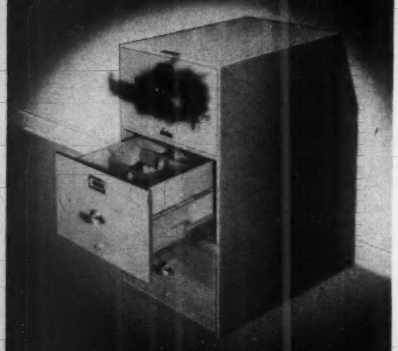

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memo

FROM SUEZ

CHANGING THE GUARD

CANAL ZONE—The British Tommies are moving out of Suez—once the West's mightiest military base in the Middle East—at the very time the Russians are making their strongest bid for a foothold in the Arab world.

The base is going over to the Egyptians by agreement. But big sections of it are disappearing into the sands upon which the whole layout was built. The entire Egyptian Army isn't as big as the force the British kept on duty at this strategic crossroads between Asia and Africa, so some of the installations are being dismantled as surplus.

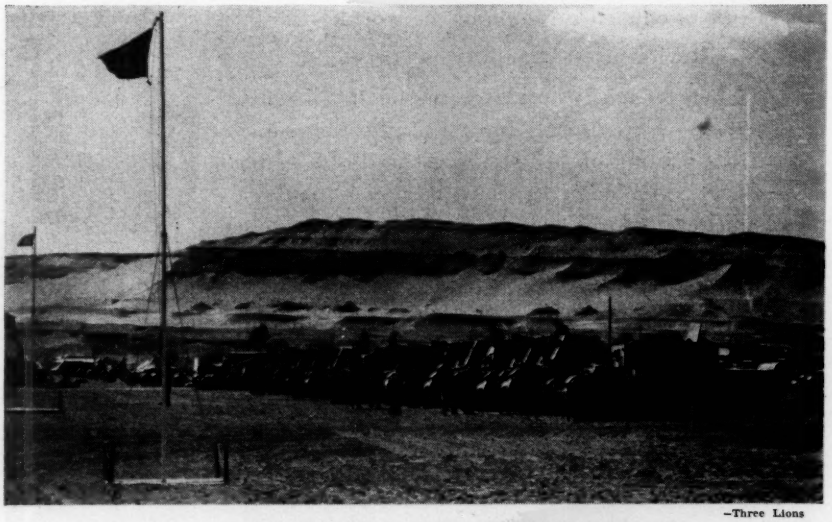
As you drive through the Canal zone, you see encampments that are being torn down, or simply being abandoned to the desert. You pass large, flat areas that show only traces of old foundations. Bits of stone wall and scattered tiles from floors are nearly covered by blown sand, leaving only hints of the elaborate installations that used to be there.

In other parts of the base there are expanses of empty sand that, only weeks ago, were sites of tent cities of the British Army. When the troops pulled up their tent stakes and moved out with their equipment, nothing remained but the desert.

Bargains for peasants. Some equipment has been sold to the Egyptians for use by their troops. Other British gear—blankets, tent poles, scrap metal—is being bought by Egyptian civilians for resale wherever they can make the best deal. In villages between the Canal zone and Cairo, you can see trucks piled with old cloth and other goods from British Army stores being sold on the streets to the peasants for whatever prices the merchandise will bring.

Still other equipment—the heavy stuff—is going back to Britain or into other areas of the Middle East. But the great bulk of it is staying right here in the zone.

(Continued on page 88)



—Three Lions

ON THE WAY OUT: BRITISH TANKS
On the way in: Communist-built MIG's

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On the African continent, substantially increased production is expected from Bancroft, Chibuluma, and Kilembe.

In South America, expansion at El Teniente, Chuquicamata and La Africana, has been announced. Under development are Cuajone, Toquepela, Quellevaco, and Indio Muerto.

In the United States (already the world's largest producer), San Manuel, Butte, Tripp, White Pine, Osceola, and Pima mines are headed for greater output.

Canada will add more production at Gaspé, Campbell Chibougamau and Opemiska. Many new properties are being developed. Substantial future output is expected from Brunswick, Geco, Granduc and Canam, to mention only a few of these new projects.

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December 20, 1955—Spring, 1956

Ciudad Trujillo—formerly Santo Domingo—founded in 1496 on Columbus' instruction, is the oldest European settlement in the New World.

To commemorate the progress of the last quarter century, the Dominican Republic is celebrating a great International Fair at Ciudad Trujillo dedicated to peace, prosperity and the brotherhood of man. We join the participating nations in extending our best wishes to the Republic.

Current trade and economic conditions in the debt-free Dominican Republic are completely analyzed in our new International Economic Survey Series #105. For your copy, just write on your company letterhead.

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I TALKED BACK TO MY BOSS AND GOT $1,500

By a Wall Street Journal Subscriber

I did it in a nice way, of course. He tried to tell me I was wrong. "You're talking through your hat!" he said.

But I had the facts. I had been reading The Wall Street Journal. At first he raised his eyebrows. Later he raised my pay (by $1,500). And a few weeks ago he put my desk near his. "I like to have people around me who know things," he said.

This story is typical. The Journal is a wonderful aid to men making $7,000 to $20,000 a year. To assure speedy delivery to you anywhere in the U.S., The Journal is printed daily in four cities—New York, Chicago, Dallas and San Francisco.

The Wall Street Journal has the largest staff of writers on business and finance. It costs $20 a year, but in order to acquaint you with The Journal, we make this offer: You can get a Trial Subscription for 3 months for $6. Just send this ad with check for $6. Or tell us to bill you. Address: The Wall Street Journal, 44 Broad St., New York 4, N.Y. US12-30

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memo

. . . Withdrawal of British hurts Suez merchants

Under the terms of the evacuation agreement, the British will be permitted to store up to 50,000 tons of ammunition in Suez and more than 300,000 tons of other military supplies, not counting vehicles and fuel. Practically everything else goes to the Egyptians. For example, Britain is retaining landing rights on only one of the 10 airfields being handed over to Egypt. Even there, the British will not have control.

The British evacuation is proceeding ahead of the schedule set with the Egyptian Government when Britain agreed to give up the base. More than two thirds of the 86,000 troops once stationed here already have moved out. The remainder will be gone within the next six months.

The Tommies' place is being taken by Egyptian forces—which soon will be equipped with Communist-made arms. By next spring, Egypt will have taken over all the military installations that remain in service. Instead of British troops, there will be only about 1,200 British civilian technicians, whose job it will be to keep the stored supplies in good condition and to service equipment for the use of British ground forces elsewhere in the Middle East.

Russian arms and planes. At the time the agreement was made to hand over the zone, the British counted on being able to come back and reactivate the base in case of emergency at any time during the next seven years. But now that the Egyptians are purchasing Communist-made weapons, some second thoughts are being heard about the conditions under which the base will be available in time of war.

The British soon will be faced with the prospect of having millions of dollars' worth of their own military stores being guarded by Egyptians armed with Communist-supplied weapons. Egyptian Air Force pilots will circle overhead on patrol—in Russian-built MIG fighters.

One of the by-products of the British evacuation is the effect it is having on the economy of the Canal zone. The British, at the peak, provided jobs for more than 25,000 Egyptians. That number is down to 16,000 now and it is bound to go even lower. It isn't likely that the Egyptian Army will be able to hire all those who are let out.

Another item that will be sorely missed is the payday spending of the British troops, who had no place to go in their spare time except to the towns and cities

within the zone. At Ismailia alone, British soldiers when off duty spent more than $100,000 each week. That's big money in Egypt.

Shopkeepers haven't been complaining publicly—it would be considered unpatriotic to imply that they needed the British in Egypt for anything—but, in private conversations, they make no secret of how they feel about the drop in their business.

Life is tougher. Even the Egyptian Army is finding that it cannot have its cake and eat it too—now that it has about reached its long-time goal to take over the Canal zone.

Many Egyptian officers assumed that, as long as the British technicians were around, most of the more comfortable aspects of British living would be around, too, for the Egyptians to share. But it isn't working out that way. One Egyptian, assigned to guard a base installation, immediately asked to be directed to the post exchange. He was obviously

—European

EGYPTIAN ON PATROL
. . . taking over from the Tommies

disappointed when told that the British had taken the store with them. He also appeared let down when he learned there was no British Army mess around to provide free meals.

It will not be long, though, before the routine of the changed base becomes familiar to everyone. The Egyptians will get used to seeing fewer and fewer British troops, and gradually they will come to realize that responsibility for the base is completely their own.

Suez is becoming Egyptian in fact as well as in name. Its future value to Western defenses will depend almost entirely on how the Egyptian Government finally makes its choice between Russia and the West. More than most, British officials here in Suez can hardly wait to find out.

CLARK EQUIPMENT moves mountains . . .

. . . of chemical fertilizer

Here's materials handling teamwork in the Georgia plant of a fertilizer manufacturer. On the left is a Clark Tructractor—a fast little dump truck for relatively long hauls inside the factory. On the right is Clark's newest addition to its Michigan Tractor Shovel line—a 15 cu. ft. capacity machine designed specifically for industrial bulk handling. This new Michigan is practically as easy to drive as a new car. There's no clutch pedal or engine clutch; Clark's exclusive power-shift transmission completely eliminates this notorious cause of operator fatigue and mechanical wear.

. . . or fragile crated glass

The boom-and-tong attachment on this Clark lift truck enables a New York City glass distributor to handle heavy, fragile loads safely and quickly. The operator of the lift truck moves crated glass from the warehouse out to the street, gently places it aboard the truck for delivery. The versatility and dependability of Clark machines has made them the standard of industry and commerce, wherever materials must be moved efficiently

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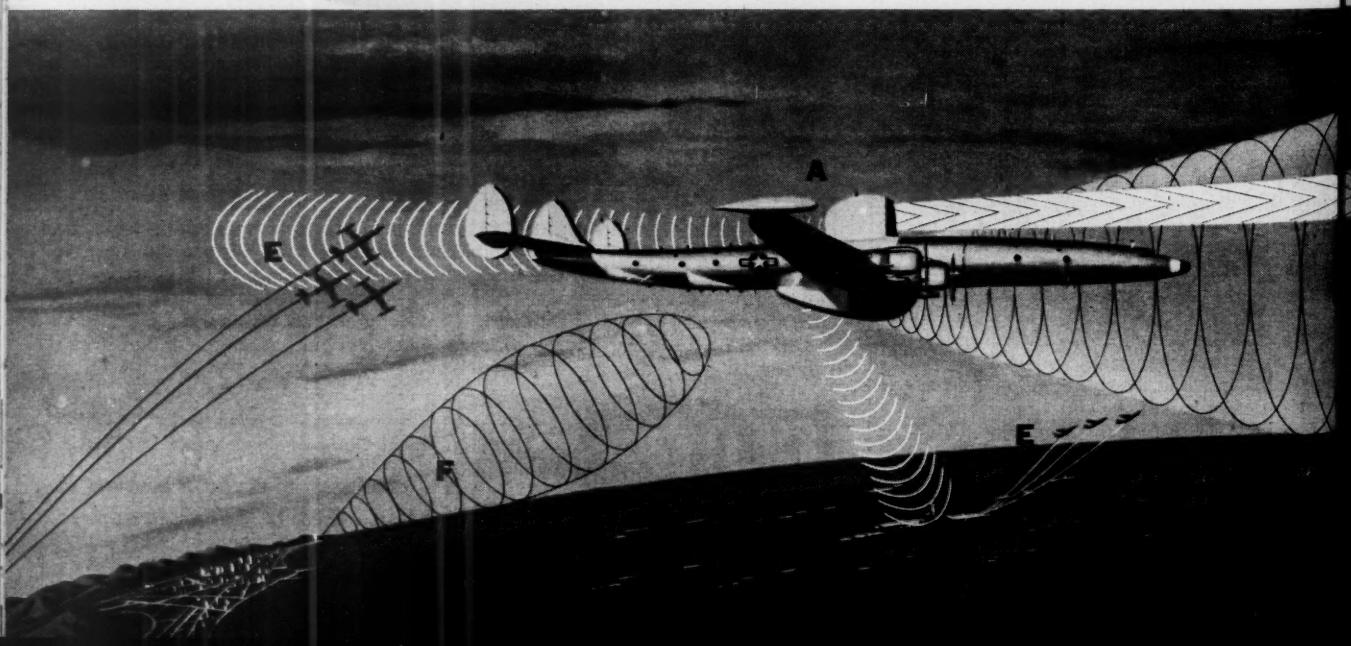
TOTAL DEFENSE

In this age of awesome airborne nuclear weapons, a vast umbrella of airborne electronics will safeguard our nation against sneak attack

BELOW—A WEAPONS SYSTEM IN ACTION. An electronics-laden Super Constellation early-warning plane (**A**), patrolling our outermost defense perimeter hundreds of miles from our shores and borders, from its high altitude can "see" beyond the horizon and detect both high-flying and low-flying enemy aircraft (**B**). Using its powerful search radar (**C**) and height-finder radar beam (**D**) to pinpoint position of invaders, the patrol plane alerts our interceptors (**E**), which swarm aloft and are radar-guided through fog or darkness to intercept and

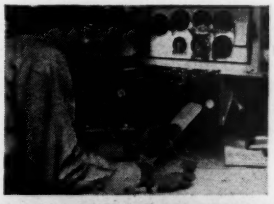


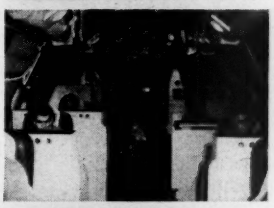
LEFT—EARLY-WARNING RADAR PATROL. Designated the WV-2 by U.S. Navy and EC-121 by USAF, these radar-domed Lockheed Super Constellations carry six tons of electronics and a 31-man crew. Super Constellations are ideal for this duty because of their famed all-weather stability and extremely long range.

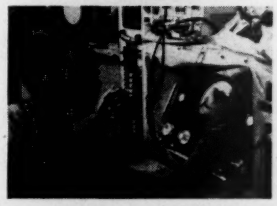
ABOVE—ROCKET-FIRING STARFIRE INTERCEPTOR. First of the almost-automatic all-weather interceptors, the Lockheed F-94C Starfire is an example of Lockheed's leadership in the design and development of airborne electronics. This deadly defender and other interceptors will soon be supplemented by—

Farsighted Pentagon planning and recent amazing technological developments by U.S. science and industry are rapidly making our nation's TOTAL DEFENSE system the most formidable in all history.

Lockheed's role in implementing our new Weapons System concept and in Systems management, is an important one. Thousands of Lockheed military aircraft, of *nine* widely different types, are already in service. Other advanced planes, missiles and electronic guidance devices are in production, undergoing tests or on the drawing boards at Lockheed. And Lockheed's pioneering leadership in design and development of airborne electronics will continue to contribute heavily to TOTAL DEFENSE.







STILL-SECRET F-104 SUPERSONIC JET FIGHTER. (Photo not yet released.) A high-ranking USAF officer said of the F-104: "This is a fighter pilot's dream. We feel confident that it is the fastest, highest-flying fighter in the air, anywhere."

THREE PHOTOS AT LEFT show crew members of Super Constellation early-warning plane at work. (Top) Navigator plotting a fix; (center) observers at radar consoles plotting altitude, speed and course of unidentified aircraft; (bottom) fighter-director charting position and path of approaching aircraft.

Lockheed

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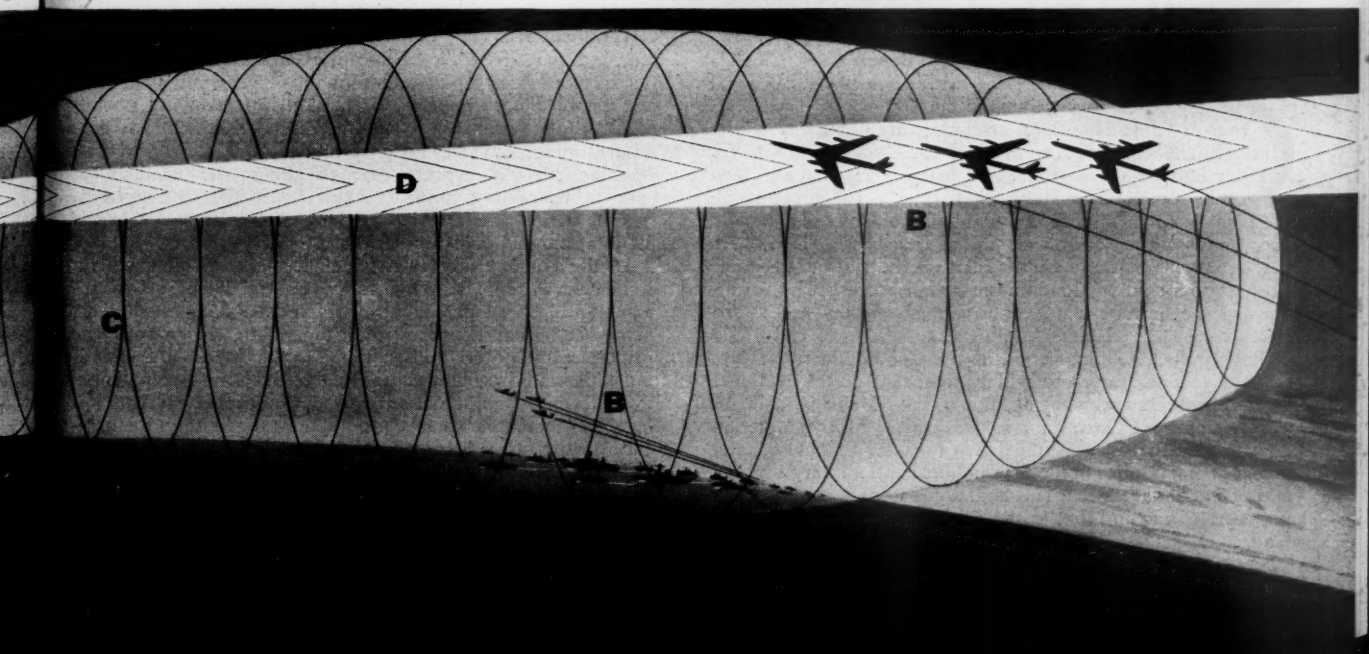
A CAREER IN MILITARY AVIATION ASSURES A FINE FUTURE FOR YOUNG MEN OVER 17. SEE YOUR NAVY OR AIR FORCE RECRUITING OFFICER.

destroy the attackers with high-speed rockets or missiles. Any enemy aircraft penetrating our barrier patrol areas would be detected by shore-based radar stations (F) and Ground Observer Corps outposts continuously manned by patriotic civilians helping to keep our nation free.



A Diplomat Tells:

WHY RED CHINA SHOULD NOT GET A SEAT IN THE U.N.

There is maneuvering, now clear, to get Red China into the United Nations. Let in China's Reds and Russia lets in Japan—that's the deal to be offered to Americans.

Part of this maneuvering is the drive to get U. S. to grant diplomatic recognition to Peiping.

Question now raised is what's involved in recognition. What, if anything, is the U. S. asked to give away? What does the U. S. get —peace in Korea, maybe, trade, what?

Answers are given here in the full text of this copyrighted article from "Foreign Affairs," published by the Council on Foreign Relations, Inc.

by Stanley K. Hornbeck

Former Chief, Far Eastern Division, U. S. State Department

THE FEW AMERICANS who urged in the aftermath of Pearl Harbor that China be treated as a Great Power and be included as one of the "Big Four" were taking account not only of actualities but of past performance and future possibilities. They contended that China's capabilities, although not at the moment obviously effective, were latently enormous, and that she should be groomed to step into the place of leadership in Eastern Asia which would be rendered vacant through the defeat of Japan.

Their estimate of potentialities has been substantially confirmed by the emergence since 1945 of mainland China as a potent political entity. But their expectation that China's capabilities would be exercised within the orbit of the free nations has been dashed by the fact that the free nations both failed to do the essential grooming themselves and in effect facilitated that grooming by the Soviet-Communist régime. The result is that mainland China, under the control of the "Central People's Government of the People's Republic of China," now functions not as a free state in the free world but as a powerful ally of the Soviet Union in the Communist bloc.

A part of China, however, remains within the free world orbit. The "National Government of the Republic of China" still functions, on Chinese soil; and that government, still recognized by a majority of the world's states as the government of China, speaks to and for untold millions of Chinese nationals —on Formosa, on the mainland and overseas. The beliefs and aspirations of these Chinese are on the side of freedom. They are opposed to Communism and have resisted and are resisting the onward march of Communist forces in Eastern Asia.

Statistically, the jurisdiction of the Central People's Government extends far more widely than that of the National Government. However, the location of the Nationalist domain, the character of its government, the qualities of its population and the fact that it is a critical area in today's global conflict give it an importance in terms of political and military strategy and of moral values that substantially discounts the disparity between its size and that of the Communist-dominated mainland.

II

FOR THOSE GOVERNMENTS which still recognize the National Government, problems of law, of rights, of duties and of policy in relations with and regarding China are one thing. For those countries which have recognized the Communist Government they are quite another thing.

During the years since the United Kingdom recognized the Central People's Government in 1950, British spokesmen, official and unofficial, have been explaining, defending and praising that action; they and many others have urged that other countries, especially the United States, should take similar action, and that China's seats in the United Nations should be transferred from the National Government and be given to the Central People's Government.

They have declared variously that the Central People's Government is a fact, that its control of most of China is a fact and that those facts warrant recognition; that recognition is merely a diplomatic formality signifying awareness and establishing a political orientation but involving no implication of approbation; that the United Kingdom has economic interests which its government must safeguard and promote; that it expects through diplomatic contacts to exert a restraining influence; and, with special emphasis, that its action was and is based on principles and requirements of international law.

In this country the views which have prevailed have run somewhat as follows: Whereas the Central People's Government and its extensive control are indeed facts, such facts alone neither call for nor warrant diplomatic recognition. The principles and criteria to be applied to the question of according diplomatic recognition are many, and sound policy-making calls for weighing not only physical and political facts but legal *and* moral *and* social considerations together with a careful estimate of probable consequences.

Diplomatic recognition is more than a formality, signifies more than awareness, establishes more than a political orientation and, while it may or may not imply moral approbation, does certify to political acceptance by the according state,

. . . "Loss of U. S. recognition would be ruinous to free China"

does give the recipient state or government a legal status, and does bring into being a set of rights and duties as between states. Especially important: the idea that there exists in the corpus of international law a principle or rule whereunder a government which exercises effective control is legally entitled to recognition—that idea simply does *not* prevail in the United States. There is mention of it by some American authorities on international law, but not with acceptance or endorsement. It certainly has not been entertained in the formulating of American policy.

III

DIPLOMATIC RECOGNITION obviously demonstrates awareness of a political reality, and it of course facilitates the conduct of business between the states concerned and between their respective nations. But recognition is not essential or indispensable for any of those purposes.

The Government and people of the U. S. were well aware of the existence of the Union of Soviet Socialist Republics, and business was carried on between them for more than 15 years before we accorded recognition to the Soviet Government. We have carried on some business with Communist China without having recognized the "Central People's Government." Business has been carried on between Great Britain and Communist China notwithstanding the latter's refusal until recently to reciprocate fully Britain's diplomatic attestations and activities. And several of the countries which have withdrawn their recognition from the National Government still communicate with that government and carry on trade with its citizens.

—USN&WR Photo

STANLEY K. HORNBECK

Diplomatic recognition has a value—especially to the state or government to which it is accorded. In the case under discussion, the worth to the Central People's Government of recognitions already accorded it has been great, and that of recognition by the United States would be enormous. Conversely, withdrawal of recognition takes from any state or government a thing of value, and were the United States to withdraw its recognition of the National Government, the loss of that asset would be ruinous to the political credit of free China.

Diplomatic recognition gives birth to a corpus of rights and duties. In theory these rights and duties are reciprocally identical as between the according state and the recipient, but in practice the according state imposes upon itself obligations and confers upon the recipient rights without assurance that the latter will reciprocate. The consequences to the accorder may be either a gain or a loss, but to the recipient they can be only a gain.

Diplomatic recognition of a new government which is exercising undisputed control over an entire country and all its people has implications far less extensive than are those in situations where there are two governments, an old and a new, each controlling a part of a country and some of its people, each claiming right to the whole and each trying to make its claim good. In the latter situation, countries which have previously recognized the old government are under obligation to take into account the fact that it has, *ipso facto*, a status in international law which is not lightly to be disregarded. Some authorities on international law go so far as to say that a premature recognition of a new government constitutes a tort against the old.

Diplomatic recognition is an expression of policy. It is a fundamental belief of the American people that, as stated in the Declaration of Independence, "all men . . . are endowed by their Creator with certain unalienable Rights" and that "to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed." Generally speaking, this concept has played a substantial part in the shaping of United States policy on questions of diplomatic recognition.

It is often affirmed that Thomas Jefferson laid down as a guiding principle for United States recognition of new governments the simple test of mere *de facto* control. Thomas Jefferson did no such thing. Jefferson did indeed say, "We cannot deny to any nation that right whereon our own Government is founded—that every one [nation] may govern itself according to whatever form it pleases, and change those forms at its own will." But with regard to diplomatic recognition he had already written: "It accords with our principles to acknowledge any Government to be rightful which is formed by the will of the nation, substantially declared"; and in the later context he went on to say: "The will of the nation is the only essential to be regarded." True to form, Jefferson emphasized not *control* but "the will of the nation"—which equates with his better known "consent of the governed."

Whatever may be the use or abuse of what "Jefferson said," the world has changed considerably, the foreign relations of the United States have expanded considerably and the foreign policies of the United States have developed considerably since Jefferson's time. By the end of the nineteenth century it had become possible and appropriate for Acting Secretary of State Hill to write officially: "When, by reason of revolution or other internal change not wrought by regular constitutional methods, a conflict of authority exists in another country whereby the titular government to which our representatives are accredited is reduced from power and authority, the rule of the United States is to defer recognition of another executive in its place until it shall appear that it is in possession of the machinery of state, administering government with the assent of the people thereof and without substantial resistance to its authority, and that it is in a position to fulfill all the international obligations and responsibilities incumbent upon a sovereign state under treaties and international law."

In 1913 Assistant Secretary of State Adee wrote officially of the "recognition necessary to the conduct of international business between two countries" as being "dependent upon the existence of three conditions of fact: the control of the administrative machinery of the state; the general acquiescence of its people; and the ability and willingness of their government to discharge international and conventional obligations."

And in 1940 the Legal Adviser of the Department of State, Mr. Hackworth, wrote, "It has been the practice of the government of the United States to require fulfillment of certain conditions by new governments as a prerequisite to recognition."

All of this adds up to there having developed a tendency in the conduct of United States foreign relations for policymakers to inquire in regard to a new government: What are the extent and the quality of its jurisdiction? Has it the capacity to fulfill the international obligations of the state in

. . . Red Chinese Government "has become an aggressor"

which it operates? Does it manifest a disposition to respect and fulfill those obligations?

This tendency derives not from legalistic thinking but from the influence of fundamental concepts in American political thought regarding the nature, rights and duties of men and governments. Right or wrong, American thought runs to the effect not only that governments derive "their just powers from the consent of the governed" but that moral and social as well as legal, political and economic principles and standards are involved in all relationships, and that in formulating and implementing policies with regard to any foreign governing entity all of these must be taken into account.

IV

DECISIONS to accord or to withhold recognition are made by political not by judicial authorities. In this country—and, of course, not here alone—those authorities are substantially influenced by public opinion. Traditionally well disposed toward China, the people and Government of the United States look at developments there and combine with a concern for American interests a concern for what they conceive to be the interests of the Chinese. During recent years they have seen two governments, and they have thought about the capabilities and performance of those governments in terms of advantage or disadvantage to the United States, to China and to the free world. What have they seen and what have been their conclusions?

China's National Government is a product of revolution and conflict internal to China. It came to power by use of armed force and skillful propaganda originally organized with Soviet assistance; but its creators had broken with Communism before victory was achieved and throughout its existence it has been under Communist attack. It gave China during the years preceding 1945 a nearer approximation to unity than that country had known since the overthrow of the monarchy in 1911. It kept China united in resistance to Japan's attacks from 1931 on. It was an ally of the United States and other Powers throughout World War II. It has resisted Communism from an earlier moment, more foresightedly and persistently than any other government.

The National Government retreated to Formosa in 1949 with a substantial following, and there, still on Chinese soil and functioning more liberally than before, it is keeping Nationalist China in the orbit of the free world. It is the symbol and rallying point of Chinese resistance to Communist aggression and of aspirations to freedom. It has reciprocated and fostered the spirit of good will which is traditional in the attitude of the United States toward China. In its defense of Formosa, it is serving purposes common to it and to us. It favors the "ways of life" of the free peoples, especially those of the United States. It has, generally speaking, shown respect for China's international obligations. Its representatives in the United Nations speak in terms intelligible to free peoples, and their voices and votes have been on the side of the free world.

China's Central People's Government is a product of conflict partly internal to China and partly international. It, too, came to power by use of armed force and skillful propaganda, with Soviet assistance. But its creators not only have not broken with Communism; they have remained ardently committed to the Communist cause, to which they are substantially indebted. This Government has employed most of the methods found useful elsewhere in the Communist empire for acquiring, exercising and expanding political authority.

Since gaining control over most of mainland China, it has done its utmost to destroy all thought of individual freedom and to impose upon the 500,000,000 people of China a régime modeled upon that of the Soviet Union. Associating itself with the Soviet and other Communist governments in the "cold war" upon the free world, it has made China a focal point for the propagation of Communist ideology and activity among the peoples of Eastern Asia. It has openly declared itself indebted to the Soviet Union for its very existence. It has entered into formal alliance with that country and draws upon it for sponsorship and guidance. It employs tens of thousands of Soviet nationals, civilian and military, as "advisers" and technicians. It maintains a very large and ever-growing military establishment which depends on the Soviet Union for most of its equipment, much of its training and some of its operations. It abuses its own nationals and the nationals of other countries. It vilifies the United States and seeks to inflame its own and other peoples against the free world.

—Black Star

MAINLAND CHINESE
"Untold millions . . . are opposed to Communism"

The Central People's Government has disregarded China's international commitments. It has become an aggressor, and the United Nations has formally declared it to be such. It was an aggressor directly in Korea, where it defied and made war upon the United Nations, and indirectly in Indo-China, where it supported the Viet-Minh by supplying munitions to armed forces seeking to bring the Associated States under Communist domination. It has made mainland China an asset to the Communist world and a liability to the free world. There is ample warrant for believing that, were it given China's seats in the United Nations, its representatives would pursue the Moscow-made "line" and thereby add greatly to the strength of the Soviet-directed Communist bloc and its capacity for manoeuvre. And, Communist ideology being what it is, there is room for doubt whether it—or any Communist government—is morally capable of living up to its international obligations.

Recognition of the Central People's Government has thus far involved withdrawal, express or implied, of recognition from the National Government, with consequences highly

. . . "Of what profit has recognition of Russia been to U. S.?"

advantageous to the Communist world. As matters now stand, recognition of the Central People's Government by the United States presumably would not follow exactly that pattern and would not terminate our concern for the National Government and its domain. But, no matter how achieved and with what safeguards, it would be fatal to the cause of Chinese resistance to the onward march of Communism. It would estop the United States from further support to that resistance.

Followed as it would be by similar action on the part of other governments, it would shatter the morale of the National Government and its adherents. It would virtually ensure consolidation of Communist jurisdiction throughout all of China and thus legally affect Chinese nationals everywhere. It might even prove to have set the stage for an early assault upon Formosa by Communist armed forces and for the liquidation of huge numbers of those Chinese who are "oriented toward the West" and have sought to keep their country within the orbit of the free world. Whatever might be its consequences in China, it surely would tend to confirm the doubts already entertained in many quarters in Asia and elsewhere regarding the advisability of association with the United States in pursuit of a policy of resistance to Communist aggression. It thus would facilitate the onward march of Communism both on the Asiatic fronts and on other fronts.

Moreover, it would bar the United States from any reasonable further opposition to the seating of the Central People's Government in the United Nations. In addition, it would give that government the right, which would surely be fully exploited, to establish diplomatic, consular and other official agencies in the United States; and it would impose on us the obligation to accord those agencies the courtesies and immunities that are standard conventions of international intercourse.

In the light of these calculables it seems obvious that recognition by the United States of the Central People's Government would be inconsistent with and highly damaging to the over-all effort in American foreign policy to contain Communism and achieve security. Concomitantly, it would confer upon the whole of the Communist empire various immediate benefits.

V

WERE UNITED STATES RECOGNITION a thing to be bargained for—which it never should be—what may it be thought or hoped that Communist China or the whole Communist world would give in exchange? The Communists might relinquish some territory which they have taken unlawfully; they might release some foreign nationals whom they unlawfully hold prisoner. Such actions would cost them little, would be to their advantage in psychological effect, and would profit the United States little if at all in the realm of *political substance*. They might give promises, handsome promises, to do or not to do this or that, in Asia or elsewhere, in accordance with stipulations already or newly agreed upon. They might promise a "cease fire"; they might promise independence for Formosa; they might promise, in one context or another, nonaggression, free elections, trade and peaceful coexistence.

The value, however, of those promises would be speculative, would depend on Communist estimates of the advantage or disadvantage of honoring them, or on the will and capability of the free world to enforce them. Latest examples: the Panmunjom promises in 1953 and the Geneva promises regarding Indo-China in 1955.

Promises of commercial opportunities and hope for benefits to the American economy should not mislead the American public and should in no way distract or confuse American policy-makers. Has any non-Communist country substantially improved its national economy by virtue of its recognition of any Communist government? Trade with the Soviet Union or with China could under some circumstances be of substantial value to some countries—for instance, Japan—but not, in any circumstances now foreseeable, to the United States.

The Soviet Union and China have no great purchasing power, and the Communist régimes have little desire for trade with the free world except as that trade may contribute to the Communist program. Trade with Communist China has been, is and can be profitable for some individuals or firms, but its net value to the American or British economies is and will be relatively insignificant.

Promises purporting to put an end to the cold war might be worth having, but not on a basis of purchase and payment. They would be of no reliable value unless preceded by deeds clearly testifying to a change of heart on the part of their Communist givers. For so long as the Communist world remains committed to the objective of world domination it will continue to make war in one form or another on the free parts of the world.

There is little or no warrant for believing that our recognition of the Central People's Government would cause the Communist world or any part of it to modify its over-all objectives and thus resolve or diminish the ultimate cause of tensions in Asia. The net effect probably would be to increase the self-confidence, the will to conquer, and the capabilities of the Soviet-Communist empire. Those who think otherwise would do well to review the circumstances and the aftermath of our recognition more than 20 years ago of the Soviet Government, and of the British recognition five years ago of the Central People's Government.

The United States' recognition of the Soviet Government was achieved in 1933 on a basis of diplomatic trading. In an exchange of Notes, the Soviet Government gave promises—to desist, to refrain, to perform and to permit—and the two Governments agreed to establish normal diplomatic relations. Which of its promises then made has the Soviet Union honored? In what respect have its Communist rulers altered their over-all objectives? Of what profit has recognition of the Soviet Government been to the United States—or to the free world?

The United Kingdom transferred its recognition from China's National Government to the newly established Central People's Government in 1950, without trading and on a basis of wishful assumption and trustful hope. In what respect has Communist China altered its objectives or shown itself to have been affected for the better by that gesture of confidence? In what context has the United Kingdom succeeded in exercising a "restraining influence"? The Central People's Government has, *inter alia*, snubbed the United Kingdom officially, confiscated British properties, destroyed British business and abused British nationals within the area over which it exercises jurisdiction. What, then, has recognition of the Central People's Government profited the United Kingdom nationally—in terms of prestige, of influence, or, on balance, of pounds, shillings and pence?

Nor is there warrant for the contention that recognition of the Central People's Government would give American policy-makers and negotiators greater latitude for manoeuvre, greater freedom of choice. It presumably would relieve the United States of some commitments, momentarily embarrassing, to the National Government; it would reduce at least one of the areas of discord between the United States and some of its allies; and it would satisfy at least one of the demands of the Communist world. But it simultaneously would enmesh the United States

. . . "'Two Chinas' plan would make no lasting contribution"

in commitments to a government hostile to the free world and party to the conspiracy which seeks to destroy it. In total effect it would reduce rather than enlarge the area wherein American policy-makers are free to make choices.

VI

IT HAS BEEN SUGGESTED that the United States, while continuing to recognize the National Government, should also accord recognition to the Central People's Government. Under this proposal, other states would likewise accord recognition to *both* of those governments, each of *two* Chinas would be accorded membership and seats in the United Nations, and each would agree to refrain from the use of armed force against the other and to respect the rights of the other as a sovereign state. This "solution" would be achieved perhaps under the aegis of the United Nations and be underwritten by the Security Council or by sponsoring Powers.

The "two Chinas" idea has the merit of extensiveness. That it will meet with favor in the United States is not likely, primarily because it runs contrary to the traditions of American thought and policy in regard to China. This country has long been committed to a policy of respect for China's territorial and administrative integrity and of opposition to plans for partitioning that country.

The whole plan would be suspect in many circles in the United States because of skepticism regarding Communist promises and United Nations' capabilities. Were it proposed officially, the Chinese Nationalists surely would oppose it, and if it were pressed they would probably resist. It might conceivably be accepted, perhaps even be favored, by the Communists—for tactical reasons. If adopted, it would give them more than it would cost them and it would consolidate gains which are at present speculative. Were it by chance agreed upon and implemented, it might produce some momentary relaxation of tension, but because the Communist appetite increases with every concession it would make no lasting contribution to the cause of peace.

There sometimes is coupled with the "two Chinas" proposal the further suggestion that China's permanent seat in the Security Council be transferred to India. Were that suggestion to attain the status of a serious proposal it could be considered either in combination with the original proposal or separately. Either way, to make such a transfer possible it would be necessary to amend the Charter of the United Nations. Either way, the idea of such a transfer would be anathema to the Chinese—Nationalists and Communists alike. That fact alone should give pause to those to whom the idea seems attractive on its merits or as a contribution toward solving, by means of a package deal, a twofold problem of representation. Any government or group of governments which may think of proposing or sponsoring it in the United Nations will need to ponder the complications to which an open and official discussion of it—and still more the adoption of it, if and when—might lead in the relation of India and China, of India and the Soviets, and of the Soviet Union and China.

For India, the idea of having *a* permanent seat on the Security Council might have great appeal, but the idea of acquiring such seat at China's expense would be quite another matter. In world affairs, to impose upon China an externally devised political dichotomy would produce nothing stable; and to take China's seat in the Council from Nationalist China, withhold it from Communist China and give it to India would in no way strengthen the United Nations or add to its repute as an instrument for collective security. What contribution, then, could this deal or any part of it, if consummated, make toward safeguarding and promoting the long-swing interest of the United States and of the family of nations?

There comes also a suggestion that the will of the people of —more accurately, *on*—Formosa be ascertained by a plebiscite. It may be doubted whether implementing that suggestion would be practicable or profitable. Authorities familiar with the situation on Formosa affirm that, of the nearly 10,000,000 people there, more than 98 per cent of whom are Chinese, few indeed would vote in favor of Communist China; and it is considered probable that the majority would vote for independence without in the least understanding the implications of an independent status. Their vote, while possibly informative, would solve no problem and might create new difficulties. The question of Formosa's future is a part of the far greater question: China's future. That question is of concern, conscious or unconscious, to all Chinese—and to other countries. If knowledge of the will of the people is to be sought by plebiscite, should not that procedure be applied on the mainland as well as on Formosa?

From time to time the question is asked: Having recognized the Soviet Union and having raised no objection to its becoming or remaining—together with other Communist countries—a member of the United Nations, why decline to recognize Communist China and why object to admitting it to the United Nations? If the question stood alone it would need to be dealt with in terms of a patient and extensive statement of facts; but, propounded as it has been in a context of debate, it can be dealt with briefly by asking other questions in rejoinder: Having recognized some Communist states and governments with unhappy consequences, why add to our own embarrassment and the troubles of the free world by recognizing another? And, being in no position to object to the presence in the United Nations of Communist states that are members, why *not* oppose admission to the United Nations of another government whose voice and votes would augment the strength of the Communist world and diminish that of the free world?

Recognition of the Central People's Government by the United States would presumably be followed promptly by its admission to the United Nations. Were this accompanied by the ejection of the National Government, it would mean one more delegation contributing to the Soviet-directed Communist effort in that forum and one less on the side of the free world. In the Security Council, that change would greatly facilitate the operations of the Communist bloc. The argument, actually advanced, that this really would matter little because "two vetoes have no more effect than one" is myopic —to say the least—for in any context one less delegation on one side and one more on another means much in the realm of manoeuvre and often may be decisive.

VII

IN THEIR APPRAISAL of China's two governments and in choosing between them, some authorities give more thought than others to the ways and means by which those governments came into existence. The conflict in China is far more than a "civil conflict"; it is in fact a local deployment in the global conflict between the Communist world and the free world. Some authorities give great weight to the fact that the effective jurisdiction of the Central People's Government is far more extensive than is that of the National Government. Policy-makers ask, of course, what action by their government will best serve their country's interest—as they see it.

Has not the time come when, in approaching this problem, all men and all governments in the free world should ask with common solicitude: Which of those governments more truly expresses the way of life, the aspirations and hopes,

. . . Continued recognition of Nationalists "serves broad purpose"

the undeclared but fundamental will of the Chinese people? Which government can and will most authentically represent China? With which Chinese spokesmen can the representatives of other countries most amicably and most dependably deal? Which Chinese represent a "peace-loving state," "accept the obligations contained in the . . . Charter," and are "able and willing to carry out these obligations"? Which Chinese, if given wholehearted support by the free world, could contribute in greater measure to the cause of peace, security, freedom and justice? In regard to those governments, then, what action by our country and others will most truly serve the interests of the family of nations and, in so doing, best serve our own? Are not these the most important questions that can now be asked in order to choose wisely between the two governments now functioning in China?

VIII

THE AMERICAN POLITY is rooted in a belief in the reality of a corpus of natural, moral or divinely ordained law and a practical application of principles evolved and expounded in the corpus of Christian doctrine. Thanks to many favorable factors, the United States has become a Great Power. Thanks —or no thanks—to developments in world affairs, there have devolved upon it great responsibilities. Because of its emphasis on the right of men and nations to be free, and because of its possession of material and moral strength, other free peoples and peoples seeking to be free look to it today for honest leadership in the cause of freedom. To give such leadership, we must first, last and always be true to our own heritage of concepts, principles and commitments.

American policy-makers have declared over and over, and not alone during the present Administration, that the United States will judge other countries and governments by their deeds rather than by their words; and American public opinion endorses that declaration. As one judges, however, so is one judged. The world will judge the United States by its performance in relation to all of its commitments, formal and informal, multilateral, bilateral and unilateral.

The United States must of course enter into agreements with other countries. Agreements may or may not involve trading: bargaining, bartering, "concessions," "compromises." With the strength that it possesses and the qualities of that strength, the United States is in position to trade exclusively on a basis of fairness to itself and to all concerned. We can offer substance and we can decline anything not substantial; and above all we can refrain from trading that which is not ours to trade.

Diplomatic recognition by the United States should be regarded as a thing not tradeable, for, in American theory and practice, recognition is a certification that its accorder deems its recipient qualified and acceptable: a certification to be given, withheld, withdrawn or transferred on a basis of facts, not on a basis of barter or agreement.

Could it happen that American policy-making negotiators, intent upon particular and immediate objectives, might again make errors of oversight and misplaced faith such as were made by their predecessors ten years ago? Before and at Yalta there was bargaining: there was exchange of substantial inducements for glowing promises.

The Yalta Agreements purported to ensure coöperation in pursuit of a common victory and a common policy of collective security. The Soviet Union thoroughly exploited the authorizations given it in the Agreements, but after V-J Day went right on with its program of conquest. From study of that bargaining and its aftermath at least one lesson should be learned: The Communist world will bargain, but Soviet Communist over-all policy is not for sale and cannot be purchased. Promises, yes; but abandonment of purposes, no. Change of heart, perhaps some day and for some reason, but not in return for "concessions" or to honor promises. In no transactions should the United States rob Peter to pay Paul. At no time should the United States think it possible to buy Communist basic policy.

The United States wants peace, of course; the American people and peoples throughout the world want peace. There now is talk in many quarters about the possibility of ensuring peace through new agreements providing for "peaceful coexistence."

The action most needed toward ensuring peaceful coexistence is performance by the Soviet Union in fulfillment of the many promises which it has already given, and for which the free world has already compensated it. Among the many promises are those made to the United States in return for recognition in 1933, those made to the United States and Great Britain at Yalta and at Potsdam in 1945, and those made to the world in the Charter of the United Nations in 1945. In the absence of such action new promises would have little value, and in the presence of such action new promises would be essentially redundant. Certainly new promises not preceded by substantial indications of good faith should not be bought in terms of "concessions" by the United States. Nor should the United States pay in terms of "inducements" or "compensation." Let the Communists first give evidence by simple acts of restraint and restitution that they understand peace, want real and lasting peace, and desire that there be honest coexistence on a peaceful basis.

IX

THE UNITED STATES cannot insist that other states subscribe to its principles or live and act as it would wish. In many instances it has to tolerate conduct of which it thoroughly disapproves. It is, however, under no compulsion to give assent to such. It certainly can refuse to authorize, it can decline to sanction, and it can withhold endorsement.

No matter by what process it might be effected, or with what "guarantees," our recognition of China's Central People's Government while that Government persists in attitudes and practices utterly hostile to us and to the free world would compromise the United States in the eyes of all people—even those who urge that we take that step and those who would profit from it.

As matters now stand in world affairs, our continued recognition of China's National Government is in line with American commitments and with the over-all purposes of American policy on behalf of peace, security, freedom and justice. It serves a broad moral purpose and particular political and strategic purposes. It signifies to all concerned that the United States is truly committed to "supporting free peoples who are resisting attempted subjugation by armed minorities or outside pressures."

In the current quest for ways and means by which to promote the cause of peace, the question of keeping faith is of paramount importance. In the quest for new agreements, with its emphasis on the process of give and take, what could be sounder than an understanding at all stages and by all concerned that the United States, while prepared to negotiate and, if need be, to bargain, with a view to making new commitments, intends to stand by its existing commitments and will not subject them to the bargaining process?

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COMPANY LOANS FOR STRIKERS

Workers Accepted, Still Stayed Off the Job

It isn't often that workers choose to be on strike at Christmas time. And when they do, they don't expect the boss to help them pay their Christmas bills.

But that has happened at Westinghouse plants. It's a twist that has made this a strange kind of strike. There are other angles, too, that make this strike different.

PITTSBURGH

This industrial city has had its share of strikes over the years, but none has been quite like the one it has been watching for 10 weeks at Westinghouse Electric Corporation. This is a strike with many unusual angles.

• The strike itself was a surprise to most people. Back in October, when negotiations were under way, there was a feeling that a settlement would be reached. The company and the larger union involved had a record of peaceful relationships. It was expected that the union would settle on much the same terms as it had accepted from the General Electric Company.

So Pittsburgh was not prepared to read during October that 40 Westinghouse plants—here and in other cities—had been shut down, and that 54,000 workers were on strike.

• Weeks went by without a settlement. Christmas was coming, and workers don't like to be without pay in their pockets at that time of year. Yet strikers were not back at work when Christmas came. Pittsburgh hadn't seen that occur very often.

• It was what happened next that really set the strike apart from others. Westinghouse offered to lend $100 each to strikers or furloughed employes, interest-free. This was to help make Christmas less drab than it might have been for Westinghouse employes and their families. Thousands of strikers accepted the offer, took the loans and went back to picketing. Not many went back to work.

• But that wasn't all that happened to make the strike different. Before last week was over, a Communist angle was injected. U. S. Attorney General Herbert Brownell, Jr. accused officers of the United Electrical Workers, one of two unions involved in the strike, of having been "actively engaged in giving aid and support to Communist organizations, foreign Communist governments, and the world Communist movement."

Out of all these unusual angles, it was the offer of loans to strikers that intrigued old-timers here the most. Labor experts were unable to recall any similar action in a strike of this size.

The $100 loans were made available to any Westinghouse employe who had been without a pay check for at least 30 days. This covered strikers as well as nonstrikers who had been laid off in other Westinghouse plants as an indirect result of the strike.

In announcing its offer, Westinghouse said that it was prepared to hand out 7 million dollars to eligible employes during the week before Christmas. Employes could repay the loans in installments after the strike ends.

The offer caught the union by surprise. After some confusion, union officials indicated that they had no objections to members' going through the picket lines to get loans. The money was made available at all plants.

Strikers at 30 plants had been without pay checks since October 17, when the International Union of Electrical, Radio and Machine Workers—known as "IUE"—walked off the job. These plants employ about 44,000 workers. IUE is affiliated with AFL-CIO.

The walkout spread on October 25 to 10 other plants, where contracts were held by the United Electrical, Radio and Machine Workers, known as "UE." This union bargained for about 10,000 employes at Westinghouse. UE was ousted from the old CIO in 1949 on the ground that UE leaders followed a Communist line.

Behind the loans, the company said, was a desire to help employes' families as Christmas approached. Westinghouse President Gwilym A. Price put it this way:

"Our employes have suffered enough hardship from the strike called by the IUE and UE without having to face a completely cheerless Christmas.

"Since the union leaders rejected management's proposal that employes return to work for a period long enough to earn some holiday money, while negotiations continue, we wanted in some way to help our employes have a more enjoyable Christmas."

Mr. Price also said: "We recognize that some people may feel we are prolonging the strike by 'subsidizing' the strikers. We do not think so. We see no reason why the deadlock over terms of a union contract should mean a bleak Christmas for many thousands of children who would never quite understand why Santa passed them by."

The 54,000 employes who have been

—Wide World

WESTINGHOUSE EMPLOYES GET COMPANY LOANS
"We wanted . . . to help our employes have a more enjoyable Christmas"

out on strike for two months or more have been losing more than $900,000 a day in wages. The average Westinghouse worker earned $2.10 an hour before the strike. Unions have been giving money to strikers to meet emergency needs, but no set strike benefits were paid.

The after-effects of the loan offer remained a subject of debate among labor experts. Some argued that the extra money would encourage strikers to hold out longer. But most experts held that the good will built up by the loans would aid the company's efforts to reopen its plants. Several thousand strikers had returned to their jobs before the loan offer was made.

Before the strike began, both unions rejected a company offer of a five-year contract, with annual wage increases and adjustments to meet changes in living costs. Under this offer, the first year's raise would have been 3 per cent, or at least 4.5 cents an hour. The unions held out for a 15-cent raise and retention of the old contracts, which had one more year to go.

"Communist" charges affected only one of the unions involved in the walkout. The Justice Department took the action against the UE under provisions of the Subversive Activities Control Act. This law was broadened in 1954 to cover unions that are found to be Communist-infiltrated.

In the Justice Department's petition, UE officials were accused, among other things, of using the union's facilities to distribute propaganda for Communist causes and to support the aims of Communist foreign governments.

The petition was filed with the Subversive Activities Control Board in Washington. A hearing will be held later, at which time the union can present its objections to the charges. Union officials have termed the charges "lies."

In the end, if the Board should find that UE has been infiltrated by Communists, UE would be denied the protection of the Taft-Hartley Act. That would mean that UE could not file charges against employers at the National Labor Relations Board, could not get employe elections to win bargaining rights.

Officer indicted. One day after filing the petition against UE, Mr. Brownell announced that a federal grand jury in Washington had indicted a UE vice president, John Thomas Gojack, of Fort Wayne, Ind., on charges of contempt of Congress. He was accused of refusing to answer questions about Communist affiliations during hearings of the House Committee on Un-American Activities.

UE now claims a membership of about 100,000, scattered through the electrical-appliance field.

What Union Membership Costs—Half Billion a Year

A new study of what U. S. workers pay to belong to labor unions comes to these conclusions:

- Unions collect approximately 457 million dollars a year in dues. The average member pays at least $26.14 a year in dues, or nearly $2.18 a month. About half of this income stays in the local union. The rest goes to the union's national headquarters.
- On top of this, most unions collect initiation fees from new members and levy occasional assessments. When this added income is included, the total revenue of the unions is estimated at more than a half-billion dollars a year.

The figures, just made public by the National Industrial Conference Board, are drawn from a survey of union constitutions that control the amounts to be charged members. NICB experts checked the provisions in 194 constitutions, for unions that claim a total membership of more than 17.5 million.

Wide variations in dues are shown. The largest amount listed in the constitutions is $25 a month, charged by the Air Line Pilots Union. Pilots who pay this fee are said to earn between $19,000 and $20,000 a year.

Actually, there may be higher dues in other unions, since 109 national organizations allow their local unions to set the dues figure without specifying limits in their constitutions.

In 18 cases, the constitutions of the parent unions put a top limit on dues. A maximum of $5 a month is fixed in seven instances. Locals can go up to $10 in one union. Other "ceilings" start as low as $2.

In 21 other unions, the constitution specifies the exact amount to be paid in monthly dues. The figures run from $1 to $7.50 a month.

The dues rate in eight unions varies according to the type of membership. A senior dispatcher, for example, pays $6.66 a month to the Air Line Dispatchers Union, the survey reports, while a junior dispatcher pays half that amount.

Dues are graduated according to earnings in six unions. A worker pays 1 per cent of gross earnings if he belongs to the United Glass and Ceramic Workers of North America, or to the American Flint Glass Workers' Union.

More than half the unions permit their locals to set initiation fees for new members. In 40 unions, the national constitutions fix the amount to be paid, with $5 the figure most frequently listed. In this group, the top fee listed is $250, charged by an independent union, the Friendly Society of Engravers and Sketchmakers.

In 44 unions, a maximum fee is listed by the constitution of the parent body to guide the local unions. The top maximum here is $150, the report states. It is charged by the Bricklayers Union.

Thirty-eight other unions specify only the minimum rate to be charged new members. The minimums run up to $250, listed for the Marine Engineers.

PAYING UNION DUES
On the average: $26.14 a year

Other examples cited in the report include these:

Coal miners pay at least $4 a month in dues, with local unions permitted to fix the rate at any figure above that. Of the dues, $2 goes to the national headquarters and $1 to the regional office of the United Mine Workers. The constitution sets the initiation fee at $50, except for special recruiting drives.

Steelworkers have a standard rate of $3 a month for dues.

Truck drivers and others in the Teamsters Union pay an initiation fee set by the local union. Dues are set by the local, with $3 as a minimum.

Auto Workers joining the United Automobile, Aircraft and Agricultural Implement Workers of America pay a fee of $5 to $15. Dues start at $2.50 a month.

Carpenters pay at least $10 to join, then pay $1.25 or more a month.

The Walkers are celebrating their 25th Anniversary

Through the years Linda Walker has paid through the nose for setting her wedding date so close to end-of-the-month. On every anniversary since he became plant manager, Jack has had to work late.

That's because his modern, decentralized company still clings to inadequate, old-fashioned accounting procedures in its branches. Figures for 30 days of operations have to be boiled down at the last minute. Before a report can be sent off (generally late) to General Offices, Jack and his whole staff have had to burn a lot of midnight oil.

Yet he and Linda could be on the dance floor right now – with the aid of Keysort punched-card accounting. By processing figures every day, Keysort eliminates some of decentralization's biggest bugs. Daily and weekly reports show plant manager and department heads where they stand *now*. End-of-the-month is like any other day . . . without rush, overtime or hurry-up calls from top brass.

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People's incomes continue to rise faster than retail prices. This is another way of saying that living standards still are on the upgrade.

Latest income and price figures of Government point up this trend.

Take-home pay of factory workers in November hit an all-time high average of $72.85 a week for a worker with three dependents. Year ago it was $68.18.

The rise in weekly income, after taxes, amounts to 7 per cent in a year.

Living costs, over the same period, are up less than 1 per cent.

Result: Factory workers have added considerably to buying power. What's true of this group is true of most other groups, too, except for farmers.

This combination of added purchasing power and stable prices explains the current boom. People are able to buy a lot more goods and services.

Living costs edged up slightly in November. Official index of the Bureau of Labor Statistics puts consumer prices, for the month, at 115 per cent of the 1947-49 base. That compares with 114.9 for September and October.

All-time high for the index was 115.4, for October, 1953.

You can see from these figures that prices held within a narrow range all through the 1953 boom, the 1954 dip and the 1955 boom. Government officials foresee little change in the retail-price level in months just ahead.

Food costs, at retail, are at the lowest level since December, 1950.

Housing costs rose a bit in November because of higher rents, higher prices for furnishings, fuel, repairs, laundry and dry cleaning. Lower prices are reported for refrigerators, toasters, vacuum cleaners, dinnerware.

Transportation costs are up on the official index because of higher prices for new cars. Used cars and gasoline cost a bit less than in October.

Higher prices also are reported in some cities for men's haircuts, shoes, television sets, toys, medical care, hospitalization insurance.

Christmas trade this year breaks the record established in 1954.

Department-store sales averaged 6 per cent above a year ago for the week ended December 17. Sales also were up 6 per cent for a four-week period.

Sales gains in department stores are notable in the home-furnishings area. That includes appliances and TV sets, furniture, rugs.

Total retail trade slipped a bit in November, season considered, but the windup for the year, as indicated by department stores, was strong.

Above-average gains are reported for these Federal Reserve districts:

Philadelphia, up 11 per cent from a year ago; St. Louis, up 10 per cent; Atlanta and Chicago, up 9 per cent; Cleveland, up 8 per cent.

Gains of only 2 to 3 per cent are reported from New York, Boston, Dallas,

(over)

Kansas City, Minneapolis and San Francisco. Richmond is up 7 per cent.

Corporate profits present another reflection of the boom.

Profits, before taxes, are estimated by the Council of Economic Advisers to be running at a rate of 44 billions a year. That's for the July-September period. That has been topped only three times--in the third and fourth quarters of 1950 and the first quarter of 1951.

After taxes, profits are running at a rate of 21.9 billions. That rate has been topped only in the final two quarters of 1950.

Profit figures may well impress Congressmen when they consider next year's tax measure. Those who want to give any tax cuts to individuals--and that includes most members--will argue that corporate taxes can be kept high.

Corporations, however, need profits to meet financial requirements.

Demands for capital funds in 1955 rose sharply from 1954. The Commerce Department notes that companies had to have more money for inventories, for working capital and for expansion and modernization.

Retained earnings, plus depreciation allowances, were running at a rate of 24 billions for 1955. That's 5 billions higher than a year earlier.

Borrowing from banks increased 3 billions in 1955. By contrast, in 1954, corporations reduced bank debt by about 2 billions.

New security sales, bonds and stocks, come to around 6 billions. That is about the same amount raised in 1954 from this source.

Profits have to be substantial to support this kind of financing. And this kind of financing is essential to healthy business growth.

Decline in home building, evident since last spring, promises to continue into the opening months of 1956.

Requests for appraisals on proposed homes filed with the Federal Housing Administration and Veterans' Administration are falling off.

Applications to VA came to only 30,400 in November, down from 43,100 in October. Last March, VA requests totaled 71,900.

FHA applications totaled 16,300 in November, compared with 19,200 for October and 28,300 in March.

This dip in requests for appraisals is a strong indication that home construction may be even lower next spring than it is now.

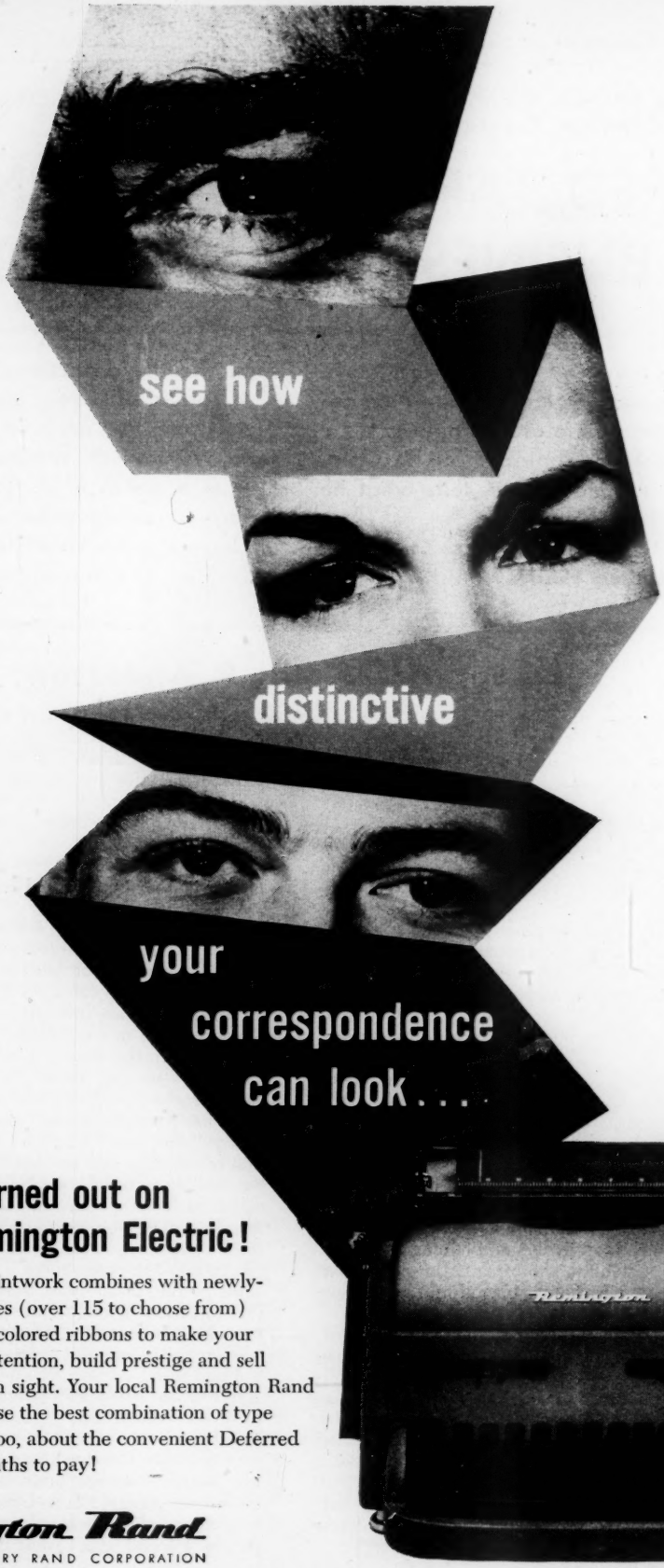
Main reason for lower housing starts is tighter mortgage credit. National Association of Home Builders reports tightness in all parts of the country. That causes builders to cut back in their plans.

Federal Reserve Board, however, is expected to keep credit tight until the boom gives unmistakable signs of slowing down.

No such strong signs are appearing yet. So there's no reason to expect the Reserve Board to reverse its current policy.

Some attempts may be made, however, to provide a bit more mortgage money.

Railroad workers completed the 1955 round of pay raises in wage agreements reached at Chicago. Nonoperating employes--shopworkers, track crews, etc.--settled for 15.4 cents an hour, plus benefits. Conductors and brakemen got 10.5 cents an hour. Most other unions settled in October.



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Senator Anderson Says:

RED TAPE IS STRANGLING BUSINESS USE OF ATOM

Pressure is growing in Congress to remove many of the restrictions that surround the development of peacetime atomic power.

Senator Anderson, chairman of the Joint Committee on Atomic Energy, tells what he thinks is needed. His views—

• To compete in the world race for atomic power, the United States must cut out some security restrictions before it is too late.

• The lid of secrecy needs to be lifted completely off the program to develop power from "controlled" H-bomb reactions.

• U. S. policy of vacillating on basic regulations is costing sales on world markets.

These are the views to be given Congress next year by a top authority on the atom.

by Senator Clinton P. Anderson

How does a businessman discover the possibilities for atomic products, how does he learn what he can make? An obvious answer is: "From the Atomic Energy Commission."

Since the Atomic Energy Commission is the only agency in this country which is in the atomic-energy business in any really significant way, it alone could give me, if I were the businessman, the clues I need for (1) entering some phase of the atomic-energy industry, (2) the possible rewards of such a step, and (3) the know-how with which to proceed.

So let's picture me as an absolute newcomer to the field, approaching the Atomic Energy Commission with my question. Let's listen in while AEC refers me to the thousands of words of unclassified information already available. This approach may strike me as unusual, since to get an answer from the Commerce Department I do not have to read about every business in the land.

But, let's further imagine me reading everything about atomic energy that I can find and eventually coming to the conclusion that atomic energy offers a great many challenges and financial incentives to an alert industrialist.

For example, I discover that there are several possibilities for generating electric power. I see tremendous possibilities in the field of radiosterilization of meat and vegetable products. I glimpse what appear to be other fabulous opportunities in medicine, agriculture, metal fabrication and mining.

So, after reading through all this information, I decide that I will attempt to learn the possibilities for my firm to produce atomic-power reactors.

Again, I go to the Atomic Energy Commission and say, "I've read everything given me about reactors but I need to know more. I must have figures dealing with costs, various operating excesses, availability of supplies, and so on. Can you give them to me?" The answer at that point would be, "Sorry, but details such as you ask are confidential restricted data. You can receive this information only if you have a clearance and have been granted an access permit."

So my next question is: "An access permit? What's that? How do I go about getting clearance and obtaining an access permit?"

I am told that I will have to be checked personally to see if I have committed any crimes or other indiscretions of importance before I can receive an "L" clearance, and get an access permit for confidential data and a "Q" clearance for secret information.

"What about the other members of my company?" I ask, "Will they too have to be cleared?" "Oh, yes," the Atomic Energy Commission replies. "How much will this cost?" I ask. The Atomic Energy Commission answers that it can cost as much as $265 for each "Q" clearance.

The way is open, yes, but the road is long and sometimes difficult. An applicant starting as I have imagined myself starting to learn all about nuclear energy is in the position of a rich man trying to enter the Kingdom of Heaven—it is easier for a camel to pass through the eye of a needle than it is for a businessman to receive frank and complete and unfettered answers from the Atomic Energy Commission.

But let's say that I am a stubborn businessman and that I have clenched my teeth and promised: "They're not going to block me with this secrecy routine."

Now, once again I go back to the Atomic Energy Commission information counter, hat in hand. I look the same to them, but inside my head is everything a man can read that is unclassified. I know there are several ways I can get into production in the atomic-energy field. I decide I'll try something for the American market first.

The AEC response follows the same pattern. "Food sterilization?" they ask. "Sure, there are some good prospects in that direction. Waste atomic products? No, we don't have any for sale. We haven't decided to sell them and even if we had, we couldn't quote you a price."

I had asked simply: "Can you give me information on radioactive waste material?" It looked promising as a cheap way to preserve meat and vegetables and meet competition from the canners.

This shows you that I had hopes of becoming my own boss in the atomic-energy business. And while I was reading up on atomic energy, I found that several others in the business in a big way also wanted to be their own bosses. Big companies, I found, don't want to be "inside" even if it is profit-

. . . "Time is here for the curtain of secrecy to come down"

able. They want to be free, and I have a suspicion that freedom will be even more rewarding to them.

So, after finding that the AEC wouldn't sell me waste products for a variety of reasons, I started thinking about atomic accelerators. They are a source of electrons and will work well in sterilizing food. And when I started talking with the accelerator people, I found that the Army Quartermaster Corps was there ahead of me. They are interested in the food-preserving business and they, too, are having trouble getting waste-product information from AEC. So the Army is taking the accelerator route.

The electronic-particle-accelerator makers are most cooperative. They don't talk about clearances and access permits. They can quote prices and delivery dates. My accelerator is mine to keep and use. If I have any ideas for improvement, I can patent them and maybe sell them back to the manufacturers. It's that kind of a deal—free and open and businesslike. I find it hard to find fault with the Army people for liking this kind of salesmanship.

After investigating the food-preserving business, I decide to look further, let's say. I see promise in medicine, and in other fields using atomic-energy materials. But suddenly the thought hits me: "Why not try selling supplies to companies already in the field? What are those chances?"

Bang! Down comes the security curtain again. But since my election to the Senate and my appointment to the Atomic Energy Committee, I have found that there is a vast market for suppliers to the atomic-energy program.

I find that almost 100 million dollars is being spent this year in New Mexico, my home State, for supplies and salaries and expenses of the Sandia Corporation, on atomic business with 4,120 suppliers all across the nation. I find that there are similar enterprises in 15 or 16 other States. This is a big market and one well worth cultivating.

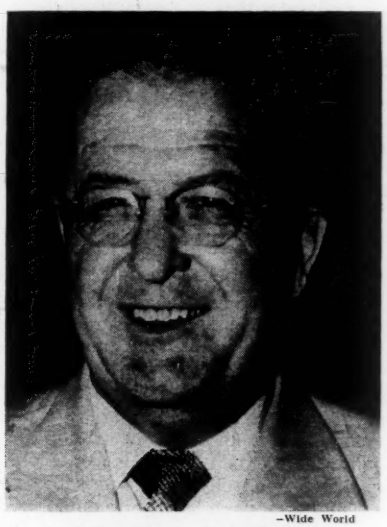
My stubborn trait is still persisting. I have an idea that one of the privileges of freedom is the right to try out an idea and go bankrupt, or fight it through to success and worry about paying my income tax. Like the radio quiz shows, American business has the right to "go for broke" or go for the $64,000. At least, business used to have that right.

I've thrown my hat away at this stage of my effort and now I've decided that I can't be so sure about licking this secrecy stuff at home. Maybe I can become an atomic-energy **giant** in the international field—and, if not a giant, perhaps I can be one of the first to spread the peacetime benefits of the atom to a hungry and underprivileged world.

I tell myself: "Here is a market where a man's ability to discover frugal methods, where new ideas, may yet pay off."

But what happens when I attempt to go abroad to sell my wares?

I find that I've been so busy reading up on the subject, so busy getting clearances and access permits, that I've overlooked the fact that a lot of other people are already in the atomic-energy business. France is in it. So are Great Britain, Russia, Italy and West Germany. Everybody's getting into the act.



—Wide World

CLINTON P. ANDERSON

Furthermore, they've come up with some ideas I did not find in my AEC reference library. This startles me a little. I had come to believe that America knew it all.

The French have their processes and they are only too glad to tell me about them—and sell my customers ahead of me. This gives me another jolt. The French don't require access permits and clearances, partnership or licenses.

And another thought bounces off my head like a neutron straight from Los Alamos—why did we ever need access permits and clearances? Here are businessmen and scientists from all over the world talking about so-called secrets! A good 10,000 people at home have been reading confidential material as I have. Where are the secrets?

When we first got into this atomic-energy business, we rightfully attempted to keep it a secret and thereby enjoy what then was exclusive possession and control. There were men at that time who knew that the controls they were setting up, the curtain of secrecy they were drawing, might in the long run have to come down. But this seemed many years away.

We then were building weapons, and the peaceful use of atomic energy was visible only upon the distant horizon. Who could have guessed that the peaceful use would come so suddenly upon the world? But it did come, despite all our attempts at secrecy, and now the time is here for the curtain of secrecy to come down.

This is another fact we must face in the international market: The world isn't going to wait. India is at work, Brazil is at work—who isn't busy now? The atom is a fashionable business to be in.

Another fact in the international atomic world is that the atomic fuels, uranium and thorium, are available in just about any quantity you want. Yet, in our country, the Government tells us what to do with uranium, and our uranium industry leads the sheltered life of a hothouse plant. No cold winds of competition from richer ores, more efficient processes and better ideas can blow across our domestic uranium industry from abroad. But hothouse plants fed on taxpayers' dollars are too feeble for rugged international competition.

Also abroad, we find that the American way of building reactors is not always being followed by other nations. You all know why. But therein is yet another reason why Americans may find it difficult to sell abroad. They have to sell miles of red tape along with each reactor.

They can't let a foreign buyer "go for broke." Further, we insist that he bind himself to us for years while we reprocess his fuel elements and look over his shoulder.

Let's leave the international market for a moment and try to find an illustration at home which will show what I have been trying to say.

Because of a change in my current farm plans, I have two surplus tractors to sell. Suppose I called the farmer next to me and said, "Would you like to buy one of my tractors?" He would ask me whether they burned kerosene, diesel oil, or gasoline. My reply would be: "Sorry, that's classified." If he takes that answer, and he wouldn't, he

. . . "'Security' can be a stumbling block" to U.S. industry

then asks me, "Can I get more of the fuel when I need to plow?" I answer him, "Sorry, we have not yet reached a policy on it; but before you start to plow I hope we can tell you where you will buy the fuel and how much it will cost you."

The next day he goes to the dealer downtown and asks him if he can buy a tractor from him. The dealer tells him "Yes" and the fuel will be butane. My farmer friend then says, "Can I get more butane?" The dealer tells him what the butane agency is, what the price now is, and what price they will guarantee for the entire plowing season. Which tractor would the farmer buy?

Competition From British, Dutch

That is the whole story of why we have tried to get a definite policy on the sale of reactors abroad. American industry offered to sell the Dutch a reactor. The Dutch wanted to know whether they could get fuel. I hear the reply was that by the time the reactor was built we might have a policy. We don't know what the price will be; we don't know whether the fuel will be enriched or natural uranium; we don't know what we will do about reprocessing the used uranium; but we would surely be glad to sell them a reactor. Meanwhile, the British say that they will sell them a reactor, and the Belgians say they will sell them fuel. Who do you think will sell the Dutch the reactor? What would you do?

This illustration can be re-enacted in Italy, in France, and even in Tibet.

Throughout my remarks so far, I have talked of buying and selling abroad as if there were no obstacles in that line. But here again is a reality to be faced every day by men who export and import goods and services.

All of you have heard of favorable and unfavorable trade balances of foreign exchange as applied to one nation and another. The United States historically has found itself in the favorable position of having sold more goods than it imported. This left other countries owing us more money than we owed them. Because they could not produce and sell enough goods fast enough to keep pace with us, they were always short of American dollars. This meant that the American industrialist who had goods to sell abroad could either sell in exchange for American money and limit his sales to the available dollar supply, or he could accept currency of the country to which he was making the sale. American producers have elected, in most instances, to avoid accepting foreign currency.

This situation still prevails, and since atomic-energy installations require expenditures of gigantic size, the dollar situation becomes even more critical.

How can we sell to a country which has no dollars with which to buy? You can ask yourselves this many times as you go from country to country: "How will I be paid for my product?"

This brings us back home, where another fact awaits us. For the present, anyway, we must attempt to live with the access-permit program.

Now exactly what do we accomplish by this procedure? I will pass over the question of whether such confidential information is worth guarding. I will ask instead if this whole complicated system of clearances keeps information out of the hands of our enemies—assuming they want it. Of course it doesn't. Are we to think that a foreign spy would necessarily have some sort of a police record showing him to have been an embezzler when he asks an "L" clearance check! Hardly! Were not Burgess and Maclean people of good standing in the British Embassy?

To me, the access-permit program is an example of supposed security which is not security at all. To me, this program can prove to be a stumbling block placed in the way of American industry—one more form to fill out, one more additional delay before a businessman can determine whether or not he wants to go into atomic energy.

Let me now cite a second example of security which, in my opinion, is not really security at all. I have in mind our information policy in the field of controlled thermonuclear reactions. As you know, it is theoretically possible to generate useful power from the light elements. The mere possibility of taming the H-bomb and using hydrogen energy for constructive purposes is immensely exciting. Success in this effort would rank as one of the great discoveries of all times.

Can it be done? The scientists do not know—and I certainly do not know. But one thing I think I do know. The job of seeing whether hydrogen energy can be controlled is an immense job. It may eventually require the work of thousands of people, and the task may extend over decades. Even so, success is neither assured—nor even probable.

This is a field where we badly need new ideas. The surest way to keep from getting such ideas, in my opinion, is by posting a "Keep Out" sign around our controlled-hydrogen program.

I have heard no sound military reason advanced for keeping our work on this project classified. Yet the very existence of our program was not disclosed until the Atomic Energy Commission was pressured into making a statement at the Geneva Atomic Conference because of a speech delivered by Dr. Homi Bhabha, the famous Indian physicist who served as president of the Conference. Since then, the Commission has moved slowly in relaxing the security barriers surrounding this program—but it has not removed them.

It is my considered opinion that the time has now arrived when we should declassify, and not merely downgrade, all our work in the controlled-hydrogen field.

Never in our previous history have we been able to make progress by keeping secret the discovery of new principles and new ideas. Nor have we ever had to submit an idea to a panel of men for approval and disclosure.

• • •

My hope is that we let this new atomic industry try its wings on free air, as Britain, Belgium, France and Germany seem now to be doing.

• • •

Hearings for Businessmen

We have established a panel to study the peacetime impact of this new force. We will hold hearings at which the findings of this panel may be weighed, evaluated, discussed or discarded. Only in this way can the business judgment of American industry be given a voice in shaping the policy which the Congress may adopt and the Atomic Energy Commission carry out. This is your day in court, as it is the day of scholars, scientists, students or small business executives. Each will have to decide what use he will make of it.

The foregoing are excerpts from an address by Senator Clinton P. Anderson (Dem.), of New Mexico, chairman, Joint Committee on Atomic Energy, made before the Nuclear Science and Engineering Congress in Cleveland, Ohio, Dec. 15, 1955.

PLUS & MINUS
Latest Indicators of Business Activity

Business activity is closing the year at its highest level on record. Expansion of debt by business, by State and local governments and by individuals is sustaining the boom.

Steel mills set a tonnage record in the week ended December 17, with operations rising to 100.3 per cent of capacity. Large orders for the metal still are pouring in.

Lack of steel is postponing production in some fields of activity dependent upon it. Railroads, with 109,370 freight cars on order, face delays in getting them. Some highway programs must wait for structural steel.

Paperboard output rose to 296,461 tons, 19 per cent above a year ago. Main use for this product is in making cartons and boxes for the shipment of consumer goods.

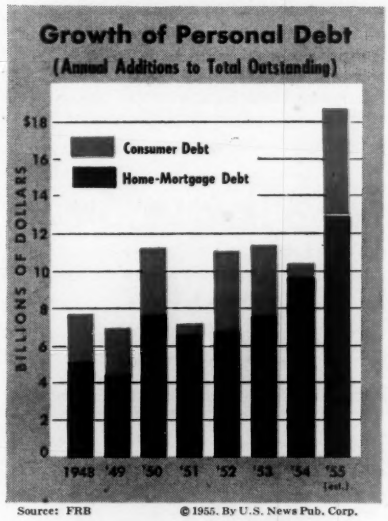
New security issues floated by corporations amounted to about 2.75 billions in the fourth quarter, nearly half again as large as in the same period of 1954.

State and municipal issues marketed in the fourth quarter exceeded those marketed a year ago, but by a narrow margin.

Interest rates are edging still higher as demand for capital grows. The Treasury paid 2.618 per cent on its latest issue of 90-day bills, a new 22-year high. Yields on best-grade municipal bonds reached 2.30 per cent at mid-December, highest since last September. Best-grade corporate bonds returned 3.18 per cent, highest since late in 1953.

Soft spots in the economy at the year end are mainly in the auto and home-building industries. Auto production dipped 6 per cent in the week ended December 17 as manufacturers, faced with a piling up in dealer stocks of cars around the country, stopped producing on Saturdays. In November, builders started new homes at the lowest rate in 16 months.

Expansion of personal debt, a strong force lifting business activity in 1955, is not likely to be as great in 1956. As



Source: FRB

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the top chart shows, the growth of outstanding consumer credit and home-mortgage loans exceeded 18 billions in 1955, compared with 10 billions in 1954 and 11 in 1950.

New credit extended in 1956 hardly will surpass that extended in 1955. Probably fewer new cars and homes will be sold. The tendency for credit terms to grow longer, with down payments smaller, has been arrested by this year's money squeeze.

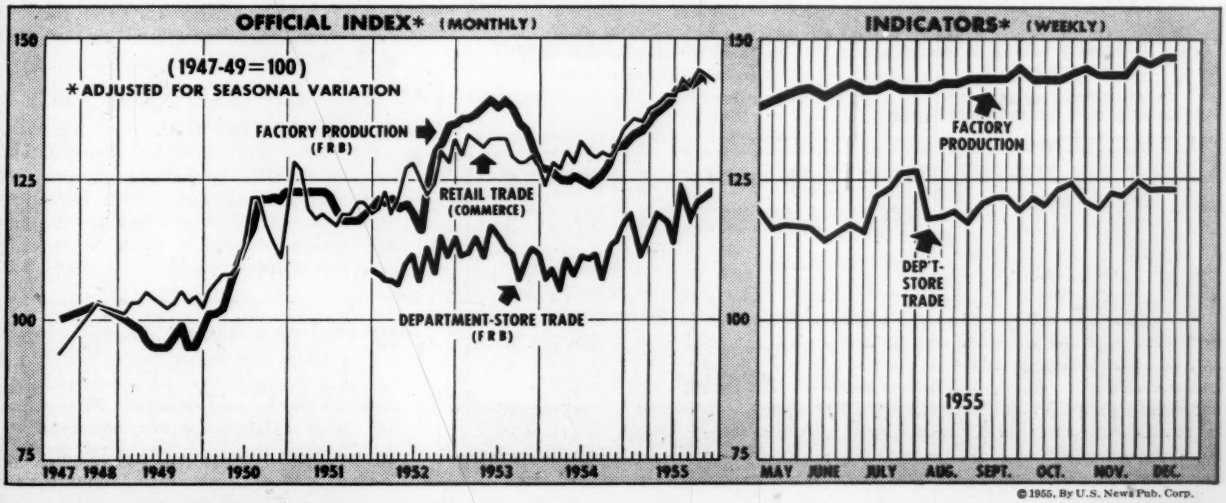
Debt repayments, meanwhile, are mounting steadily, especially on consumer installment loans. Tendency in 1956 will be for repayments to go on rising toward the rate of credit extended. As this happens, the growth of consumer debt will proceed at a diminished rate. In 1955, the expansion of consumer debt amounted to more than 5 billions.

Credit sales, however, will continue to give strong support to the rate of consumer spending.

Habits of buying on credit, with easy terms, have been formed and strengthened in 1955. Almost three fourths of all new cars sold recently have been bought with credit, the highest ratio in recent years. The use of credit in buying furniture, appliances and consumer goods, except autos, has risen to 45 per cent of sales from 40 a year ago. "Revolving credit" plans are coming into general use in retail stores.

Personal incomes, climbing year after year, have provided a credit base in which lenders and businessmen have growing confidence. In October, the rate of personal incomes, before taxes, reached 309.6 billions per year, up 21.2 billions from a year ago. In November, there was a further rise in jobs and wage payments.

Momentum of the business rise probably will lessen soon as the auto and home-building industries settle down to a lower rate of activity. But total spending of business, consumers and government gives every sign of rising further in the new year.



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NEWS-LINES

WHAT YOU AS A BUSINESSMAN ☑ CAN and ☒ CANNOT DO

as a result of recent court and administrative decisions

☑ **YOU CAN** address your employes the day before a ***collective-bargaining election*** as long as you do not violate the rule of the National Labor Relations Board against speeches within 24 hours before an election. The Board finds no fault with an employer's speech to workers where it ended 24 hours and 45 minutes before the polls opened.

* * *

☑ **YOU CAN** take an income tax deduction for your payments into a trust fund that is set up to provide supplemental ***unemployment benefits*** to workers who are laid off. The Internal Revenue Service approves business-expense deductions for payments into such a trust fund where a company is obligated to make the contributions and cannot get the money back.

* * *

☑ **YOU CAN** inform the Government of areas in submerged lands of the outer continental shelf off Texas and Louisiana which you would like to explore for ***oil, gas or sulphur.*** The Bureau of Land Management fixes February 10 as the deadline for persons to say in what areas they might be interested in oil, gas or sulphur leases.

* * *

☑ **YOU CAN** find out from the Bureau of Land Management about its rules governing rights of way for ***pipelines*** to move oil and gas from submerged lands of the outer continental shelf. Final regulations issued by the Bureau differ from those proposed earlier this year.

* * *

☑ **YOU CAN** get information from the Federal Mediation and Conciliation Service about its policies in helping to settle ***labor disputes.*** In an amended regulation, the Service explains its policies and its relations with State and local mediation services.

* * *

☑ **YOU CAN** buy documentary stamps in large denominations to cover the tax due on issuance of a number of ***capital-stock certificates.*** Procedures for using such stamps are explained by the Internal Revenue Service in its Revised Ruling 55-721.

☑ **YOU CAN,** in handling the income tax of a corporation, sometimes take a deduction for the cost of sending an officer of the company on a hunting trip. The U. S. Tax Court allows a company to take a deduction, as a ***business expense,*** for the cost of sending two officers on a big-game hunt in Africa where the trip was used as an advertising stunt.

* * *

☑ **YOU CAN** express your views to the Federal Trade Commission on its proposal to set up trade-practices rules for the refrigeration and ***air-conditioning*** industry. Hearings on the plan will be held at the Sheraton-Cadillac Hotel in Detroit on January 6 and at the FTC building in Washington on January 20.

* * *

☒ **YOU CANNOT** sell commercial ***life insurance*** at a U. S. military base unless you agree to abide by new regulations of the Department of Defense. Among other things, insurance agents must report to base commanders on each sale and insurance companies must take full responsibility for actions of their agents.

* * *

☒ **YOU CANNOT,** as representative of a railroad, expect to get a court to stop the Post Office Department from sending ordinary first-class ***mail*** by air. In turning down a petition of a railroad, a court of appeals holds that the Postmaster General has authority to conduct experimental transportation of such mail by planes.

* * *

☒ **YOU CANNOT,** as a ***dairy farmer,*** expect to treat as a capital gain your profit from the sale of young cattle that you dispose of because they are surplus and not needed to replenish your dairy herd. A court of appeals rules that money received from the sale of these cattle must be taxed as ordinary income.

* * *

☒ **YOU CANNOT** legally take a poll among your employes to find out who will continue to work if a strike is called in your plant. A court of appeals holds that an employer violated the ***Taft-Hartley Act*** by such a poll of employes and also by questioning them about their union activities.

Conclusions expressed in these paragraphs are based upon decisions and rulings of courts and Government bureaus. In making their decisions, courts and bureaus consider many facts which, for reasons of space, cannot be set forth in detail. U. S. NEWS & WORLD REPORT, *on written request, will refer interested readers to sources of this basic material.*

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We've Been Asked:

ABOUT PENSIONS FOR DISABLED

- There soon will be a new debate in Congress over paying Social Security pensions to disabled workers before they reach the age of 65.
- This plan for extending benefits already has been approved by the House and has strong support from some members of the Senate.

There's talk of Congress setting up an insurance plan to pay pensions to disabled persons. What's the idea behind this?

The idea is that a person covered by Social Security who becomes totally and permanently disabled would not have to wait till age 65 to collect his retirement pay. He could draw his Social Security pension after reaching age 50.

Where does this plan stand?

The proposal has been approved by the House and will be taken up by the Senate after the new session starts in 1956. There is strong pressure in favor of the move, though the Administration has not taken a stand either for or against it.

How much would a disabled person get?

He would receive a monthly check for the amount that he would have got at age 65 if he had retired then—there would be no added amounts for his wife or minor children. Top payment now would be $98.50 a month, but, under 1954 changes in the law, eventually it would become $108.50.

Would only the needy collect?

No. Anyone 50 or older who has enough Social Security credits and who becomes totally and permanently disabled would be eligible.

What is meant by "totally and permanently disabled"?

That would be inability to work because of a physical or mental ailment "which can be expected to result in death or to be of long-continued and indefinite duration."

Who would decide if a person were disabled?

That would be left up to certain State agencies.

What about a person only temporarily disabled?

The general idea is not to make payments to those with only temporary troubles. In this connection, a person would have to wait six months after becoming disabled before drawing a pension. However, the plan involves a program of vocational rehabilitation for some who are able to take training courses that might restore them to self-support.

How many would draw disability pensions?

It is figured that about 250,000 would qualify for the payments in the first year, with the number rising in later years. Cost during the first year would be about 200 million dollars.

How would the extra money be raised?

At the start, both employers and employes would pay 2½ per cent Social Security taxes, instead of the present 2 per cent each. This would increase, over the years. Part of this money would be used for other changes in Social Security payments. Some members of Congress fear there later may be a strain on Social Security funds.

How would a person qualify?

There is a rather complicated series of formulas, involving quarters of coverage, for figuring this. Among other things, an individual must have had 20 quarters of coverage during the 40-quarter period before his disablement.

Is a disabled person under 50 protected at all?

Yes. The Social Security amendments adopted in 1954 provide that a person with enough credits who becomes totally and permanently disabled will not be required to pay any more Social Security taxes to qualify for a pension at age 65. In addition, his family gets some benefits in case of his death. Also, 40 States participate in a federal-State program to help disabled persons who are in need.

The plan before Congress proposes another change in Social Security law involving disability benefits. Monthly checks would be continued for children who have passed their eighteenth birthdays and who were totally disabled before that age. Now, a child who is the survivor of an insured worker or the child of a retired worker loses his Social Security payment at the age of 18.

WHY BONDS LOOK GOOD TO SOME INVESTORS

At a time when stock prices have been going up, bond prices have been going down.

This means better returns to bond buyers. Even on tax-free municipal bonds, some recent issues yield more than 3 per cent.

As a result, some investors are switching. There is a feeling among bond experts that the best time to do this may be short. Here is the situation.

For what may be a brief period, people are buying bonds on the best terms in more than two years.

The Government's policy of keeping money tight is giving these investors a break by making interest rates rise. To keep up with the general trend, States, cities, public agencies and corporations are being forced to post higher rates of interest on any new bonds they sell.

At the same time, prices of bonds already in public hands are dropping—a possible loss for those who sell but a gain for those who buy.

State and municipal bonds also have this added attraction: Interest received from them is not touched by the federal income tax. To a substantial investor, this makes a dollar of interest from these bonds worth much more than a dollar of dividends from stock. The advantage is greatest for those who have large incomes and are subject to the highest rates of taxes.

At present, these tax-free bonds are widening the edge they hold over stocks as a source of after-tax income for the well to do.

Stocks, which usually are regarded as a riskier type of security, have moved in the opposite direction. While prices of bonds have gone down, prices of stocks are hovering around the highest level in history. The increase in cost of buying stocks has been greater than the increase in dividends. As a result, the return, per dollar of investment, has gone down. The chart on this page shows this.

Behind bond-rate rise. A history of the Government's policy in managing money is reflected in the rates on bonds. Back in 1954, the Government was try-

(Continued on page 112)

The New Look in Bonds

What has happened to returns to investors since June 30, 1954 —

Municipal bonds	**UP from 2.38% to 2.72%**
High-grade corporate bonds	**UP from 2.90% to 3.17%**
Industrial stocks	**DOWN from 4.74% to 3.97%**

AND **. . . On municipal bonds, returns are free from federal income tax.**

On corporate bonds and stocks, returns are taxable.

SO . . . To realize on stocks, after taxes, the 2.72% available on municipal bonds —

A taxpayer with this much taxable income*	Needs stocks yielding
$ 10,000	3.49%
$ 50,000	6.04%
$100,000	9.38%
$250,000	18.13%

*** Income after deductions and personal exemptions; assumes married taxpayer**

Source: Standard & Poor's Municipal Bond Yields, Moody's AAA Bonds, Moody's 125 Industrial Stocks

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[continued]

WHY BONDS LOOK GOOD TO INVESTORS

ing to make credit cheap and plentiful. In August, 1954, the going rate on average tax-free municipal bonds declined to 2.23 per cent a year.

Later, the Government stopped loosening credit. The money market developed a little firmness. By January, 1955, the average return on municipal bonds had risen to 2.36 per cent.

Recently, the Government has been active in tightening up the money supply, making loans more expensive and harder to get. The municipal-bond rate has risen to 2.72 per cent.

That return may seem low, until you consider what the tax exemption means. Consider an investor who pays $100 today for a tax-free bond or average industrial stock.

On the bond, this investor gets back interest of $2.72 a year.

On the stock, this man, if he has $10,000 of taxable income, needs a dividend of $3.49 to wind up with $2.72 after paying income tax. A man with $50,000 of taxable income needs a dividend of $6.04 to retain $2.72 after settling with the tax collector. Few good stocks are paying this much today.

At an income level of $500,000, the dividend needs to be fantastically large—$20.92 on a $100 stock—to result in $2.72 after tax. The tax at this level is clipping off 87 cents of every additional dollar of dividends the taxpayer receives.

Thus, to people in upper brackets of income, dollars of tax-free interest are high-powered dollars. What looks like a low rate of interest turns out to be a far greater return than almost any business can afford to pay on its stock.

Even at an income of about $20,000 a year, interest from an average municipal bond is worth more, after taxes, than the dividends paid on an average industrial stock.

Higher-yield bonds. Quite a few tax-exempt bonds are paying more than the average return of 2.72 per cent.

A California toll-bridge bond recently was sold at a price offering investors 3.61 per cent per year. Bonds of an irrigation district in California were sold to yield 3.5 per cent.

Some new bonds of the New York State Thruway were priced to give investors 2.75 per cent.

The market for some older bonds has reached the level where the buyer gets better-than-average returns. For instance, the current yield on Maine Turnpike bonds is almost 4 per cent. New York City bonds maturing in 1979 are yielding more than 3 per cent if bought at current prices. So are bonds of the Pennsylvania Turnpike.

A 3 per cent bond, for a man whose top dollar of income hits the 50 per cent tax bracket, is equivalent to about a 5.6 per cent return from stocks.

Bargains of a sort also are available in bonds of corporations. Here there is no federal-tax exemption to tempt the investor, but he expects greater security than is offered by common stock. Desire for safety leads many investors to put some savings into corporate bonds.

Today, the sacrifice is less than half of what it was in mid-1954. At that time, the man who paid $100 for a high-grade corporate bond could expect to get $2.90 in interest. That was $1.84 less than the dividend on an average industrial stock bought at prices then prevailing.

Today, $100 paid for a high-grade bond returns $3.17, just 80 cents less than the return on stock bought at today's prices.

As the spread narrows, many investors give greater thought to safety and pay less attention to the somewhat higher dividends on stock.

Bonds of quite a few public utilities now are offering the investor a return of 3¼ or 3½ per cent. And some manufacturers in "blue chip" categories are paying buyers of their bonds a better rate of return than they pay those who risk money on their common stock.

Where stocks excel. This situation is not without precedent. At times, the average yield of "blue chip" stocks has been less than the average return on corporate bonds. In boom times, investors look for earnings and dividends to increase. They hope for large capital gains, if they buy stock and sell later after an improvement in earnings has occurred. They also feel stocks will protect them against inflation in a way that bonds will not. In addition, money can be lost in bonds if prices fluctuate or the borrower defaults.

Those considerations keep investors from making any wholesale switch from stocks to bonds. But, as stocks become more costly and interest rates rise, a certain amount of shifting of funds takes place.

That shift makes it harder for stocks to gain ground.

In 1956, the Government may let up its tight rein on credit, perhaps allowing interest rates to decline. Officials say this is certain if there is a slowing of the business boom.

At that point, bargains in bonds will begin to fade.

Yields on tax-free issues went through a complete cycle, from a low level in April, 1952, to the highest postwar level in 1953 and back to a low level in August, 1954. The whole process took just 28 months.

The new cycle, marked by improving yields, has been under way 16 months.

Many issues coming. Before the market turns around, there will be many offers of bonds bearing relatively high rates of interest. One survey indicates that, if all issues now planned by State and local agencies are carried out in 1956, they will exceed the 1955 total by 47 per cent. The outlook is for a record-breaking volume of bonds to be sold in the tax-free category in the new year.

Corporations also will be selling large amounts of bonds, to raise money for the biggest expansion in history.

Thus, there will be no lack of these securities for investors to choose among, in their search for interest-rate bargains.

Tax Deadlines Coming Up

DECEMBER 31

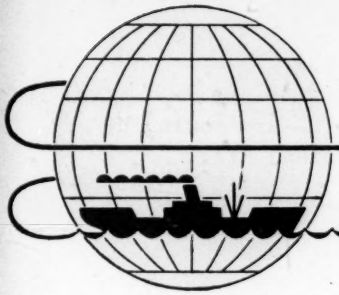
- ***Manufacturers, retailers,*** others deposit excise taxes for November if more than $100.
- ***Gamblers, bookmakers*** pay tax on wagers accepted in November, form 730.

JANUARY 2

- ***Employers*** withholding income taxes take account of any changes in the number of exemptions claimed by employes for 1956.
- ***Employes*** who have not already done so file new withholding certificate—form W-4—showing number of exemptions to be claimed in 1956 if different from number claimed in 1955.

JANUARY 16

- ***Individuals*** pay final installment of estimated 1955 income tax. If an original or amended tax declaration is required, the taxpayer may elect to file a final return on January 31 in lieu of such declaration.
- ***Farmers*** file tax declaration for 1955 and pay estimated tax, if a final return is to be filed on April 15.
- ***Executors*** pay final installment of 1954 estate income tax.



Business Around the World

LONDON • NEW YORK • AMSTERDAM • WELLINGTON

›› Watch those commodity prices. Watch those stocks of raw materials.

Suddenly--on both sides of the Atlantic--manufacturers realize that the big breakthrough in prices on industrial materials may be here.

Metal prices are where signs of it show up most. On average, they are up 10 per cent since November 1. That's a big rise in a short period.

Don't be lulled, by weak farm prices, into thinking nothing much is happening on the commodity front. Take a look at both American and European markets for metals and other industrial commodities.

Steel scrap, bellwether commodity, is moving up fast in price.

Steel is rising in Europe. Odds favor higher U.S. steel prices, too.

Pig-iron quotations are being increased in Britain.

Copper is strong everywhere. Chilean strikes have something to do with this. But the supply-demand situation, underlying, props prices anyway.

Zinc and lead have been going up in price in Europe. Lead scrap is very strong. So is tin. Aluminum and tungsten showed price strength in 1955.

Or look at some other industrial commodities. Rubber, fluctuating now, has had quite a run-up this autumn. Conditions in Malaya and especially in feverish Singapore affect both rubber and tin prices.

Sisal is firming in price. Manila hemp is stable.

Cement, lumber and other building materials are in high demand, command mounting prices in Europe, but have slipped a bit in the U.S. recently.

Coal, beginning to get short in Europe, is practically certain to rise in price. Europeans are grabbing for coal, now that cold weather is setting in.

Not all industrial commodities are joining the parade. For example, burlap hasn't moved up. Competitive bagging is a problem. Cotton is weak because of uncertainties over U.S. plans for surplus disposal. Wool has shown a slightly stronger price trend lately--on Communist-bloc buying--but nobody's getting excited about it. Wool continues very plentiful. Copra is cheaper than it was a year ago--to the chagrin of Southeast Asian producers.

Generally, though, the price advance for industrial materials is pronounced enough to cause manufacturers to look to their bins and warehouses. The days of hand-to-mouth inventories may be limited. Watch for more stocking up.

›› Among food products, price weakness continues. And there's really no sign of a reversal ahead. World wheat crop and carry-over are enormous. There's a great deal of surplus rice in Southeast Asia and in Italy.

Meat is plentiful in the big producing areas. Butter, cheese and milk products are definitely surplus problems. Cocoa price has trouble trying to climb. Tea prices dropped in 1955, as supplies accumulated in India and Ceylon.

(over)

Coffee prices have given ground during much of 1955. World sugar prices are quite weak because of the surplus. Pepper prices have tumbled during 1955.

On the other hand, vegetable oils--especially linseed oil--are moving up in price now. Eastern Europe seems to be buying a lot of linseed oil.

>> Commodity-price trends are of major importance to importing possibilities in many producing areas. Alert sales organizations follow them closely.

Price lags in tea, jute and burlap, pepper, copra, rice don't augur well for Southern and Southeastern Asia, even though rubber and tin are strong.

The metal-producing countries, such as the Rhodesias, South Africa, Chile, Peru and Canada, will be getting a lift from high prices and pressing demand.

Relative weakness in prices of wool, dairy products and meat doesn't help countries such as Australia, New Zealand and Uruguay. Slow slide-off in coffee prices affects import potentials in Brazil, Colombia and Central America. Dismal prospects for sugar darken the Cuban outlook.

>> The business of getting rid of farm surpluses continues to be grim. It's becoming a chronic irritant between otherwise good friends and neighbors.

The U.S., with 7.7 billion dollars' worth of surpluses, adds to irritations by announcing a big program of give-aways for the needy abroad. That's fine for the needy but piles up new uncertainties for food-exporting countries.

New Zealand last week protested strongly against U.S. "dumping" of surplus cheese in Panama, Belgium and Britain. Danish farmers are up in arms about U.S. selling of butter to West Germany at subsidized prices. Canada has been squawking about U.S. unloading of wheat abroad. New Zealand doesn't like Canadian sales of surplus butter to Eastern Germany. Uruguay objects to recent sale of U.S. wheat to Brazil at bargain-counter prices..... And so it goes.

U.S. surplus disposal is not supposed to disrupt normal commercial sales. But it's very difficult not to do so.

Protests also flow into Washington about surplus deals whereby a country passes over its own currency for U.S. surplus products. Most countries prefer to buy this way and conserve their foreign exchange. The U.S. just made two of these deals, totaling 37 million dollars, with Argentina and Colombia.

>> Right now the U.S. is shaping up an even bigger deal for getting rid of a lot of wheat and evaporated milk to the Indonesians. Payment is to be made in Indonesian rupiahs that will be promptly loaned back to Indonesia.

The Netherlands usually supplies most of Indonesia's imports of dairy products. So the Dutch don't care for this deal. Neither do the Australians, who now are supplying most of Indonesia's flour.

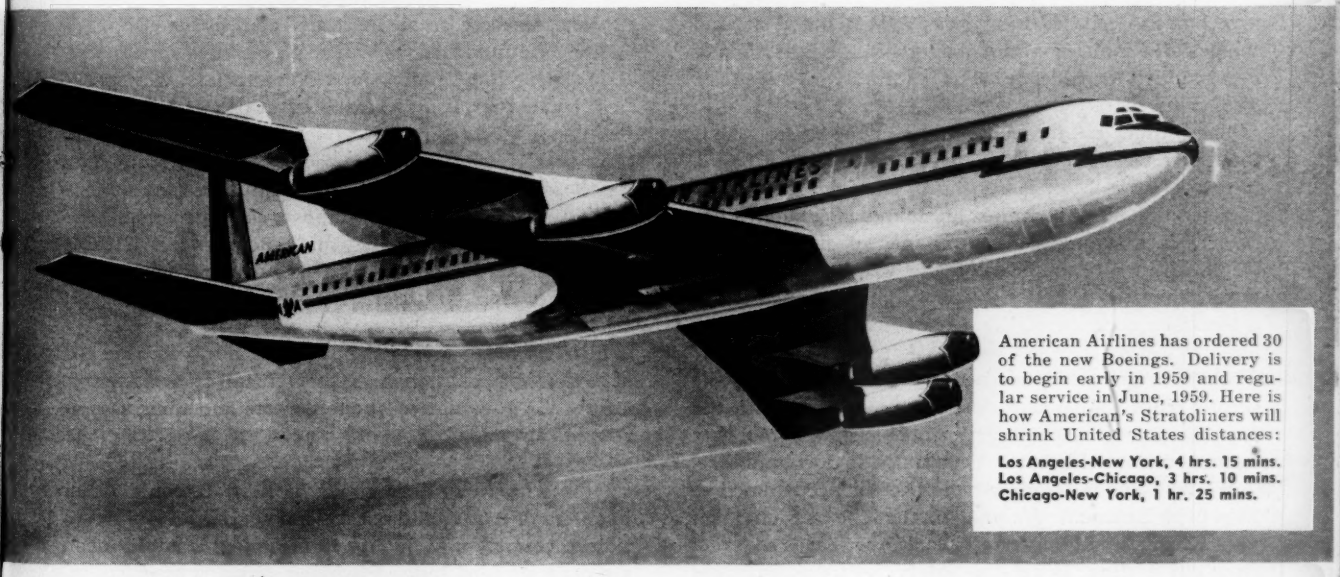
The whole surplus-disposal problem is going to get worse before it gets better. Most of Western Europe had good crops last summer. Most of Western Europe protects or subsidizes farmers, as the U.S. does. Farm surpluses are accumulating in Western Europe, as well as in North America, Latin America, Southeast Asia and Australasia. Soviet Europe and Red China could probably absorb part of these surpluses. But, mostly, the Communists will buy surpluses, as in Burma and Egypt, only for very distinct political purposes.

You can expect a great boil-up on surplus disposal. U.S. disposal plans are supposed to show real progress in the election year. But foreign countries are less and less in a mood to give way to what they consider "dumping" by U.S.

Pan American World Airways has ordered 20 Boeing 707 Stratoliners, for delivery late in 1958, and scheduled service the following spring. Here are some of the proposed flight times:

New York-Paris, 6 hrs. 35 mins.
Chicago-London, 6 hrs. 45 mins.
San Francisco-Tokyo, 12 hrs. 45 mins.
N. Y.-Buenos Aires, 11 hrs. 15 mins.

FIRST jet transocean service!



American Airlines has ordered 30 of the new Boeings. Delivery is to begin early in 1959 and regular service in June, 1959. Here is how American's Stratoliners will shrink United States distances:

Los Angeles-New York, 4 hrs. 15 mins.
Los Angeles-Chicago, 3 hrs. 10 mins.
Chicago-New York, 1 hr. 25 mins.

FIRST jet transcontinental service!

There is only one *first* jet transport in America. It is the Boeing Stratoliner—an airplane with brilliant performance that has already been proved in more than a year of flight-testing. On a recent routine test flight, the Boeing Jet made history by flying from coast to coast *and back* in 8 hours and 6 minutes!

You will be flying in Boeing jet airliners *first* because Boeing was the one manufacturer with the faith and foresight to build a prototype—the "707"—with its own funds.

Behind the Stratoliner is 39 years of leadership in aviation—20 years of building high-altitude pressurized planes—and finally the vast experience Boeing has gained in producing and flying more big multi-jet, high-altitude aircraft than any other company in the world.

BOEING Jet Stratoliner

THE YEAR THAT COULD BE NEW

By David Lawrence

THE PERSPECTIVE of our times is not just a year. The months roll by quickly—and sometimes a lifetime is concentrated in a moment of history.

For these are really not unusual times. They are the normal cycles of human behavior, marked hitherto by the ambitions of kings and princes and now by the aggression of tyrants new in name only.

There are, to be sure, more people on earth than in ancient times—but there are more powerful rulers now to hold them captive and shape their destiny.

Enslaved populations are numbered in tens of millions today, but the tortures of enslavement are age-old.

Freedom still lives alongside slavery—just as complacently preoccupied as in the past with its own pleasures, its own materialism.

"Am I my brother's keeper?" cried Cain centuries ago, but the echo of that voice is still heard around the world. Peoples continue to worship the false gods of a misguided expediency. They still are deceived by Trojan horses.

These times are frequently called "uncertain"—as if they ever were otherwise. There's nothing new in the terrors of war. Man is constantly devising new ways of defending himself against an unknown enemy. What is new is a widespread acceptance of the fact that war, with its aftermath, can mean only a fruitless conquest. Tyrants, however, count confidently instead on a bloodless conquest without war—by bluff and threat and infiltration.

What is yet to be learned by these despots is the simple truth that power does not finally rest with the few. The strength of a united people is slow to mobilize against dictatorships, but eventually it does mobilize.

We who live in freedom have become accustomed to lives of detachment. We imagine that the passion of revolt which stirs in oppressed hearts overseas is separate from our destiny. In relative safety, we try to convince ourselves that we can co-exist with evil and that it will never touch us.

Whence comes this curious aloofness which dominates our thinking? We find the flaming "liberal" of bygone days silent now in the face of human anguish and advocating instead the surrender of ideals as he joins the reactionary in clamoring for the maintenance of the *status quo*.

The brutal discipline enforced by dictatorships on a captive populace awakens relatively little indignation among us. Too many tongues that prate so often about the alleged abuse of "civil liberties" here in America are mute today in the face of the biggest denial of individual liberty the world has ever known—the cruel colonialism that has taken away all freedom from the people of Russia, China, Poland, Czechoslovakia, Rumania, Bulgaria, Hungary, Latvia, Lithuania, Estonia, North Korea and Northern Vietnam.

The modern aggressor doesn't invade with armies alone, but penetrates with fifth columns from within. America today is asked by various "liberal" groups to ignore the menace. A Senator naively asks, "Where is the danger?" and convokes a committee to spend thousands of dollars of taxpayers' money to protect the "civil liberties" of security risks caught in the web of associations with questionable organizations or persons. A former university president is granted 14 million dollars of philanthropic funds and devotes his entire project to a defense of the same "civil liberties."

The Communist conspiracy, it is argued repeatedly, is just a political philosophy. Nevertheless, with practical techniques, it infiltrates institutions. It adulterates our patriotism. Warnings against this trend are called "hysteria." We are even advised to advocate amnesty for those now in jail who have sought to betray us.

Well-meaning citizens—educators, churchmen, editors—cry out for a policy of leniency toward these "dissenters," though the latter are linked with an enemy government armed with weapons that can mean our destruction.

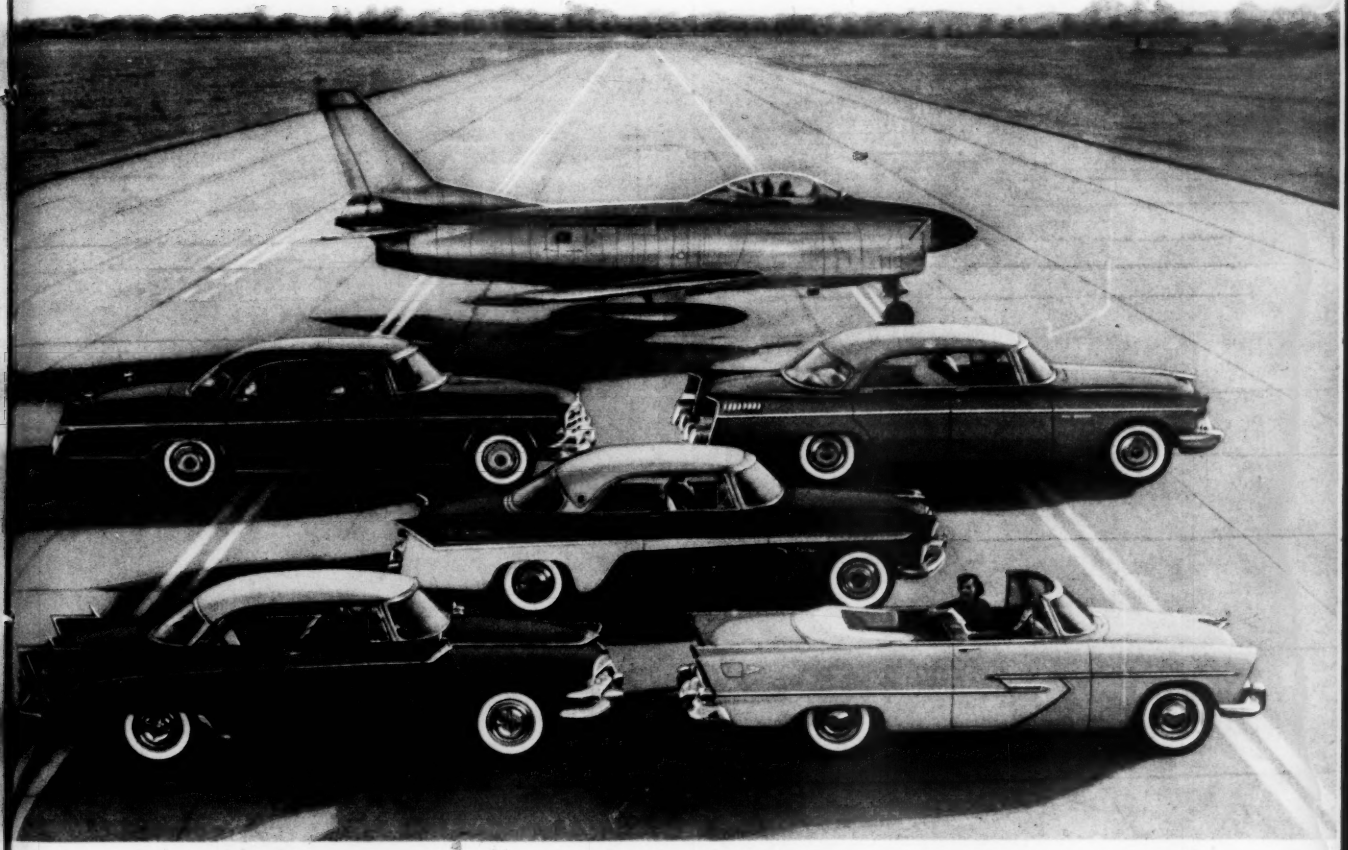
For this is the fad of the "intellectuals," who regard as heroic constitutionalism the refusal of a citizen to inform his government about traitors and their associates in our midst.

The New Year could be new. It could usher in an era of truth and honesty and good faith—of devotion to country and fidelity to principle. It could mean a rededication to Judeo-Christian ethics.

The New Year could be new—if we would only begin to see clearly that there is no substitute for simple honesty in policies, national and international, and that there is no duty or loyalty higher than the faithful fulfillment of our obligations as citizens of this Republic.

The New Year could be new if it inculcated in all of us a pride in the true spirit of America—the spirit that never compromises with evil but upholds justice, the spirit that is not afraid of sacrifice when the call to service comes, and the spirit that does not lose faith in the power of a Divine Providence "in strange ways His wonders to perform."

THE *FORWARD* LOOK '56



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What catches your eye first is THE FLIGHT-SWEEP—the freshest new note in car design this year. From jutting headlight to crisply upswept tail, this simple, clean line says *power* and *motion!* This is design that borrows from tomorrow!

Look at the people driving these cars, their faces tell you they know they couldn't have made a better choice!

See how they get into "Drive"—*they just press a button* of the new Pushbutton PowerFlite! See how they go—with *the finest new engines:* more powerful, more efficient, more economical. See how smoothly they ride—with an *all-road comfort* in a class by itself. See how easily they stop with *new hydraulic braking systems* unequaled for sureness and ease. See how effortlessly they steer—Chrysler Corporation's unique *Safety Touch Power Steering* works *all* the time, not part time.

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Visit your dealer soon. In THE *FORWARD* LOOK '56 cars you'll discover a new kind of riding and driving pleasure!

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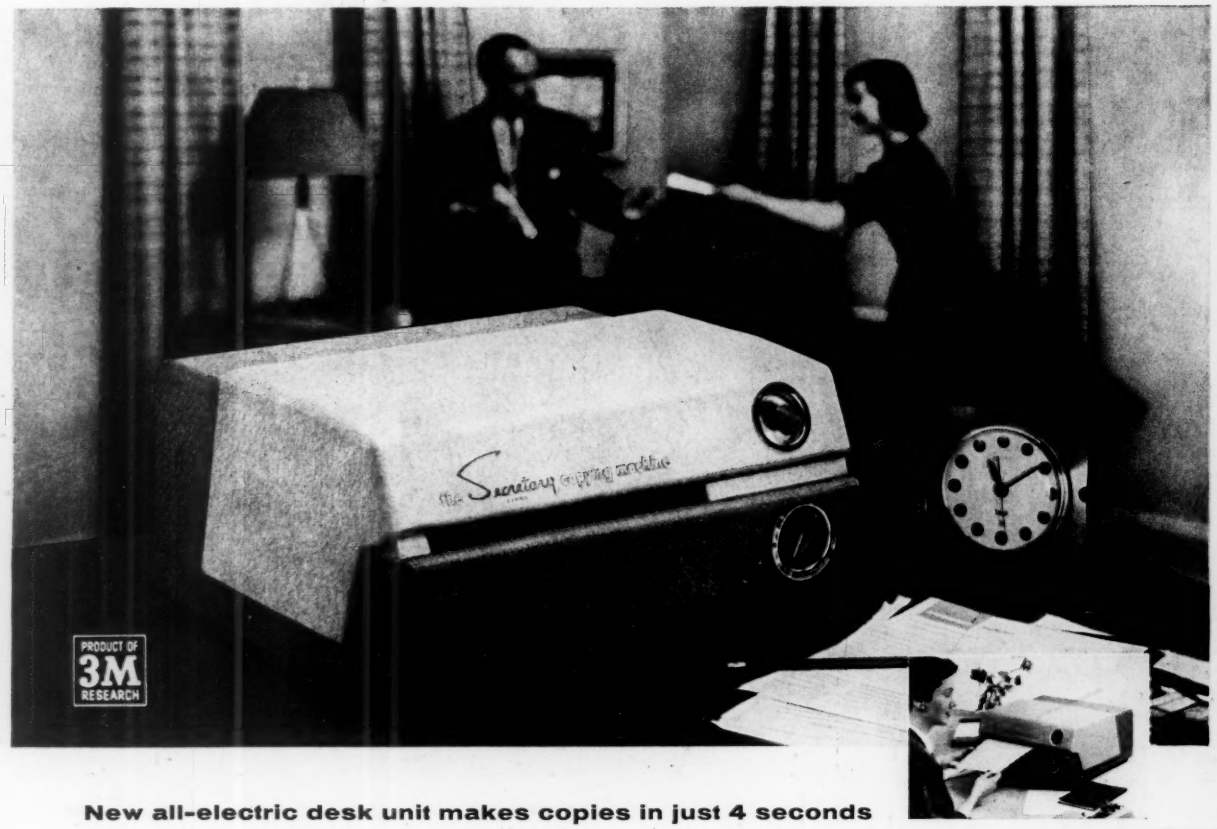

New all-electric desk unit makes copies in just 4 seconds

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